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ABSTRACT

This book is designed to help students in grades 9-12 make better decisions as spenders, savers, borrowers, and managers of money. The learning experiences focus on personal finance and money management. The 10 lessons divided into 4 units include: (1) "Challenging Choices"; (2) "Learning, Earning, and Spending"; (3) "How Much Is Too Much?"; (4) "Prom Trade-offs"; (5) "Timing Is Everything"; (6) "Saving Selection"; (7) "The Urge to Splurge"; (8) "The Credit Connection"; (9) "Expect the Unexpected"; and (10) "Changes and Choices." Contains an extensive list of teacher resources. (EH)

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TEACHER RESOURCE MANUAL

Personal Finance Economics 9-12

ED 418 020

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WALLET WISDOM

Jan Bishop, Debbie Mackey, and Vickie L. White

Economics Education

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PERSONAL FINANCE ECONOMICS, 9-12:

WALLET WISDOM

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National Council on Economic Education

A partnership of education, business, and labor

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FOREWORD

It is a very great pleasure for me as National Council President to introduce the innovative new teaching materials on economics and personal finance which follow.

This project grew out of a shared recognition on the parts of the Consumer Credit Counseling Service (CCCS) and the National Council on Economic Education (NCEE) families that too many young people make personal finance decisions devoid of the powerful understandings provided by economics. As a result, they find themselves victimized by impulse buying, advertising, the lure of credit, limited time horizons, and a host of other forces that weaken their effectiveness in the marketplace. Economics has great power for enhancing decision making by young people in the practical, real-world situations in which they operate. In harnessing economics to that purpose, these materials enhance the ability of all young people to make personal finance decisions that make their lives better.

The materials were developed by the National Council and funded by ten CCCS agencies*: St. Louis, MO; Dallas, TX; Houston, TX; Richmond, VA; Atlanta, GA; Seattle, WA; Baltimore, MD; Columbus, OH; Pittsburgh, PA; and Fort Worth, TX. We are particularly grateful to Mr. C. Philip Johnston, President of the Consumer Credit Counseling Service of St. Louis, for his extraordinary leadership in mobilizing his colleagues around the country in support of this project. We are indebted also to Janet Bishop, Deborah Mackey, and Vickie White, authors of the materials. Their dedication, insight, and creativity will become immediately apparent to users in the classroom. We also acknowledge the work of the Oversight Committee of National Council and Consumer Credit professionals, who provided clear and coherent direction to the project and services too numerous to mention. Finally, we thank Dr. Robert Highsmith, Project Director, for his leadership in bringing the project successfully to completion.

Robert F. Duvall
President

*Members of the National Foundation for Consumer Credit

INTRODUCTION

Personal Finance Economics is a series of high-quality instructional materials that assist all students, kindergarten through grade twelve, in making better decisions as spenders, savers, borrowers, and managers of money. The materials were produced by a partnership of consumer credit and economic education professionals, at the initiation of Stephen Buckles, former President of the National Council on Economic Education (NCEE) and C. Philip Johnston, President of the Consumer Credit Counseling Service (CCCS) of St. Louis.

These materials differ in an important respect from other high-quality teaching aids currently available for enhancing personal finance literacy — they employ economics, sometimes called the science of decision making, to demonstrate how children can effectively prioritize the staggering array of choices facing them when making decisions. In so doing, students learn how to make better decisions and, equally important, to avoid poor ones.

Each of the four publications in the series responds to the same question: how can students use economic knowledge to make better decisions in real-world situations in which they participate as spenders, savers, borrowers, and managers of money? Each publication has two or three lessons on each topic, revealing the power of economic analysis in decision-making situations for students of all ages. The materials were created and field tested by writers and teachers widely recognized for their understanding of children, creative teaching skills, and knowledge of ways to impart economic understanding effectively to young people.

Active learning dominates the materials. Students confront spending, saving, and borrowing choices similar to the ones they face in their daily lives, discover economic concepts that enhance their ability to deal with those choices, participate in classroom activities that use the economic concepts in decision-making situations, and engage in follow-up activities to reinforce their decision-making skills. Most of the lessons prescribe follow-up activities with parents that reinforce the skills and understandings learned in the classroom. In brief, students spend their time in these materials solving problems which interest them and learning tools that assist them in making better decisions about issues that matter.

Publications in the **Personal Finance Economics** series are available at the primary (K-2), upper elementary (3-5), middle school (6-8), and high school levels (9-12).

Robert Highsmith
Director

OVERVIEW

The purpose of these lessons is to provide high school students with learning experiences that encourage the application of economic decision-making skills in personal finance. The National Council on Economic Education's **Framework for Teaching Basic Economic Concepts** was used to identify the economic concepts that contribute to better financial decisions. In Lessons 1 - 9, students apply the concepts of scarcity and choice, opportunity cost and trade-offs, investment in human capital, economic institutions and incentives, exchange, money and interdependence, markets and prices, and supply and demand. They also use tools of economic reasoning, such as benefit/cost analysis and marginal analysis to make spending, saving, borrowing and money management decisions. In Lesson 10, students analyze how conditions in the macro economy influence spending and saving decisions. Understanding and applying these economic concepts and economic reasoning tools will enhance the choices made by teenagers, empower them to make more reasoned choices, and enable them to satisfy more wants than those who are uninformed about economics and economic reasoning.

The lessons emphasize four major personal finance topics -- spending, saving, borrowing, and money management. Four of the lessons emphasize spending choices and two lessons are included for each of the other personal finance topics. The ten lessons can be taught as a complete unit or used as independent lessons to enhance instruction in a variety of disciplines, such as economics, family and consumer science, business education, mathematics, and language arts. Most of the lessons require two days of instruction. These lessons can be used in conjunction with the three other levels (primary, upper elementary and middle/junior high school) of the NCEE's Personal Finance Economics materials to provide school districts with a K-12 personal finance curriculum.

Each lesson provides teachers with a list of concepts, a list of objectives and materials needed for that lesson; concise, step-by-step procedures; an activity for closure; a performance assessment; extension activities; a vocabulary list; and black-line masters of student worksheets and visuals. Many of the activities enable the teacher to involve parents and the community in the educational process. Because the lessons provide a variety of hands-on activities, such as games, simulations, role plays, etc., and encompass topics that are relevant and interesting to high school students, they can be used with diverse student groups representing a wide range of educational abilities and learning styles.

LESSON SUMMARIES

LESSON 1
CHALLENGING CHOICES

Students learn that limited incomes force people to make financial choices which have benefits and costs. Students learn how to identify criteria and use benefit/cost analysis in making a spending decision.

CONCEPTS

alternatives, comparison shopping, criteria, decision making, trade-offs

OBJECTIVES

- Create a list of criteria to evaluate various spending, saving, and borrowing alternatives
- Use economic decision making to make financial choices
- Identify trade-offs among criteria
- Recognize opportunity cost

LESSON 2
LEARNING, EARNING, AND SPENDING

This lesson focuses on the relationship between investing in human capital and potential earning power. Students learn how the interaction of supply, demand, and relative scarcity in the labor market determines wages for most jobs and discover the relationship between career choices, income opportunities, and their future standard of living.

CONCEPTS

disposable income, earned income, human capital, opportunity cost, relative scarcity, standard of living, relationship among education/training, income and standard of living

OBJECTIVES

- Apply the concepts of supply and demand, relative scarcity, and price to the labor market
- Prepare a budget
- Make recommendations about investing in human capital
- Use opportunity cost to make decisions

LESSON 3
HOW MUCH IS TOO MUCH?

Students are introduced to marginal analysis, as an economic reasoning tool to enhance financial decision-making. Using a "first" car and apartment as case studies, students use marginal analysis to make spending choices.

CONCEPTS

marginal analysis, marginal benefit, marginal cost

OBJECTIVES

- Define marginal analysis
- Use marginal analysis to make choices

LESSON 4
PROM TRADE-OFFS

Using benefit/cost analysis, students learn how price and preference impact a prom budget. They develop the ability to make spending choices that involve trade-offs and substitution.

CONCEPTS

benefit/cost analysis, budgeting, choice, opportunity cost, price, substitutes, tastes and preferences, trade-offs

OBJECTIVES

- Identify the trade-offs associated with financial choices
- Identify a change in tastes and preferences as a determinant of demand
- Identify the impact of price on decisions

♦ Use the concepts of trade-offs, tastes and preferences, and price to make a choice

LESSON 5
TIMING IS EVERYTHING

Through role-playing, students identify the opportunity costs of spending and saving and discover the relationship among time, amount saved, and the interest rate and its impact on savings growth. Using these concepts, they make spending and saving decisions.

CONCEPTS

compound interest, incentives, interest rates, opportunity cost, saving

OBJECTIVES

♦ Identify the opportunity cost of and incentives for spending and saving

♦ Analyze and explain the relationship among time, amount saved, and the interest rate and its impact on savings growth

LESSON 6
SAVING SELECTION

Students learn about various saving alternatives and discover how supply and demand determine both risk and return. In a group simulation, they choose from among actual savings options and experience the effect of risk and return on their saving choices. Using the economic concepts learned in this lesson, they create a savings plan.

CONCEPTS

investments, liquidity, return, risk, saving, savings, scarcity, supply and demand

OBJECTIVES

♦ Identify alternative methods of saving

♦ Use criteria, such as risk, return, and liquidity to evaluate alternative saving options

♦ Define saving and savings

♦ Explain that the demand for and supply of loanable funds determines the interest rate

LESSON 7
THE URGE TO SPLURGE

Students learn that buying goods and services with credit has an opportunity cost. Using their knowledge of opportunity cost and trade-offs, students adjust a budget influenced by the use of credit.

CONCEPTS

benefits, budget, credit, finance charge, interest, opportunity cost, trade-offs

OBJECTIVES

♦ Demonstrate an understanding of trade-offs when making choices

♦ Use the concepts of trade-off and opportunity cost to make choices

LESSON 8
THE CREDIT CONNECTION

Students discover how supply and demand determine interest rates and how changes in interest rates affect savers' and borrowers' choices. Using information from bank credit card solicitations, students learn to use Annual Percentage Rate (APR) to determine the dollar cost of credit. Students use this economic knowledge to make a borrowing choice.

CONCEPTS

annual percentage rate (APR), credit, finance charge, interest, monetary policy, supply and demand

LESSON SUMMARIES

OBJECTIVES

♦ Recognize that interest is an incentive to lenders to forgo spending their income at the present time

♦ Explain that interest rates are determined in the market by supply and demand

♦ Use the concept of interest rates and the cost of credit to explain Annual Percentage Rates (APR)

♦ Use APR and knowledge learned in this lesson when making borrowing decisions

LESSON 9
EXPECT THE UNEXPECTED

Students use marginal analysis to make insurance choices after identifying the benefits and costs of common types of insurance and the opportunity cost of buying insurance.

CONCEPTS

asset, incentives, insurance, opportunity cost, risk, risk management

OBJECTIVES

♦Explain how insurance companies provide risk management services to people

♦ Identify the benefits and costs of common types of insurance

♦ Identify the potential consequences of insufficient insurance

♦ Identify the opportunity cost of decisions

♦ Use benefit/cost analysis to make choices

LESSON 10
CHANGES AND CHOICES

This lesson enables students to analyze how conditions in the economy affect household decisions to save and spend and how students can use this knowledge to make better money management choices to achieve a higher standard of living or better lifestyle.

CONCEPTS

fiscal policy, inflation, interest rates, monetary policy, money management, recession, saving, spending, standard of living, taxes, unemployment

OBJECTIVES

♦Analyze how macroeconomic changes in the economy influence household spending and saving decisions

♦ Use knowledge of macroeconomic conditions to predict the saving and spending choices of households

CONTENT FOCUS

	1	2	3	4	5	6	7	8	9	10
Scarcity and Choice	●	●	●	●		●	●		●	
Opportunity Cost & Trade-Offs		●	●	●	●		●		●	
Productivity		●				●				
Economic Institutions and Incentives		●							●	
Exchange, Money & Interdependence					●	●	●	●	●	
Market/Prices		●			●					
Supply and Demand		●				●		●		
Unemployment										●
Inflation/Deflation										●
Monetary Policy									●	●
Fiscal Policy										●

THEME FOCUS

	1	2	3	4	5	6	7	8	9	10
Spending	●	●	●	●	●				●	●
Saving				●	●					●
Borrowing							●	●		
Money Management	●	●	●	●	●	●	●	●	●	●

INTEGRATED APPROACH

	1	2	3	4	5	6	7	8	9	10
Economics	●	●	●	●	●	●	●	●	●	●
Family & Consumer Sciences	●	●	●	●	●	●	●	●	●	●
Business		●				●	●	●	●	
Mathematics		●	●		●	●	●	●	●	●
Language Arts		●			●	●		●		●

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CHALLENGING CHOICES

INTRODUCTION

The 1990s introduced consumers to a wonderful assortment of new spending, saving, and borrowing options. As a result, financial decision making has become extremely complex, making it more difficult to manage personal finances today than it was 10 to 15 years ago. This lesson introduces students to a process to be used to make spending decisions.

CONCEPTS

Alternatives
Comparison Shopping
Criteria
Decision Making
Trade-offs

OBJECTIVES

- Create a list of criteria to evaluate various spending, saving, and borrowing alternatives
- Use economic decision making to make financial choices
- Identify trade-offs among criteria
- Recognize opportunity cost

LESSON DESCRIPTION

Students learn that economic decision making involves identifying criteria and using these criteria to make decisions. They learn that when making a choice, people trade-off among criteria. Working in small groups, students identify criteria to evaluate the benefits and costs of various alternatives. Next, the class uses a decision-making grid to do a benefit/cost analysis for the task of buying paper towels. In the assessment, students individually use decision-making skills learned in the lesson to make a spending choice.

TIME REQUIRED

- Two to three class periods

MATERIALS

5 - 10 similar products for teens
Transparency of Visual 1
Several copies of Visual 1 for each student
Three brands of paper towels, torn into sheets, one sheet from each roll per group
One paper plate per group
One copy of Activity 1 for each student

PROCEDURE

1. Introduce the lesson by displaying five to ten similar products that teens might want to buy (5-10 CDs, cassettes). Tell the students that each of them has the opportunity to buy these items. Then ask the following:

   A. Even if you liked all the items displayed, why is it unlikely that you would buy all of them? (Limits on income force people to make choices; they do not have enough income to buy all the things they want.)

   B. When there are many similar products available to buy, such as thousands of CDs or cassettes, what process would you use to choose only one? (comparison shopping in which they examine and evaluate each alternative based on factors that are important to them)

2. Explain that the important factors people consider when making choices among alternatives are called criteria.

3. Ask students to identify some of the criteria they might use to compare the displayed items (type of music, artist, number of songs, price)

4. Point out that consumers make better decisions when they carefully consider their criteria.

5. Ask a student to choose the one displayed item he or she would like to buy. Discuss:

   A. What criteria did you use to make this selection? (Answers will vary.)

B. Did the item chosen satisfy all of the criteria? (Answers will vary.)

6. Explain that when making decisions people often give up some of one thing to gain some of another. So, the student might have given up having a low cost CD in order to have one with many songs. This is called a trade-off.

7. Explain that economists use an orderly approach to economic decision making. They identify criteria and carefully evaluate how well each alternative satisfies their criteria.

8. Point out that in order to make good financial decisions, spenders, savers, and borrowers must identify criteria and carefully evaluate their alternatives.

9. Inform the class that this lesson teaches an economic approach to making financial choices.

10. Point out that one of the things that makes financial decision making so complex today is the assortment of alternatives available for spenders, savers, and borrowers — many of which were not available 10 to 15 years ago.

11. Explain that innovative changes in products have increased the number of options for spenders but also make choosing more complicated.

12. Explain that changes in the government regulation of financial markets encouraged banks, brokerage firms, credit unions, insurance firms, and other financial institutions to offer a wide assortment of new options for managing money. The availability of these options, such as money market accounts and interest-bearing checking accounts, make money management more complex.

13. Explain that this complexity requires consumers to use a reasoned, objective analysis of the various alternatives in order to choose one that best satisfies their wants.

14. Divide students into small groups and assign each group one consumer good, such as athletic shoes, tennis rackets, jeans, soft drinks, credit cards, or savings options.

15. Ask each group to think about possible product choices in its product category and prepare a list of criteria to help it evaluate the alternatives.

16. When the list is completed, ask each group to prepare and present a rhyming poem or rap song that identifies the criteria that it considers important to use when choosing its product.

17. Display Visual 1. Explain that the decision-making grid is a tool that facilitates the economic approach to decision making.

18. Point out that the alternatives are listed down the left side of the grid and the criteria, once they have been identified, are listed across the top of the grid.

19. Explain that alternatives are evaluated against the criteria by marking a "+" in the box if the alternative meets a criterion and a "-" if it does not. To determine which alternative provides the greatest net benefit, add the number of pluses and subtract the number of minuses across each row.

20. To illustrate the process, distribute a copy of Visual 1 to each student and three different sheets of paper towels to each group along with one paper plate and one cup.

21. Tell students that their goal is to decide which paper towel to buy.

22. Display the three rolls of paper towels with their prices at the front of the room.

23. Ask each group to discuss criteria that could be used to judge the three brands of towels. Then ask the groups to use the decision grid to help them make their choice.

24. Instruct students to list the criteria across the top of the grid; then have them write the alternatives down the right side.

25. Point out that students will need to perform some tests to evaluate how well different towels satisfy the criteria. (They may want to collect water in a cup to test absorbency or strength.)

26. When their evaluation is completed, ask them to indicate which paper towel they chose and why. A sample grid is shown below:

Alternatives	Criteria			
	Strength	Good Absorbency	Size	Low Price
Paper Towel A	+	+	-	+
Paper Towel B	+	+ +	+	-
Paper Towel C	-	+	-	+

27. Explain that in selecting one towel over another, they probably made some trade-offs. Trade-offs occur when people give up some of one thing in order to obtain some of another. In the case of the paper towel, they may have selected a brand that has smaller sheets in order to have better absorbency. Their trade-off was size for absorbency.

CLOSURE

1. Ask students to remain in their groups. Assign each student in the group a number from 1 to 3 or 4 depending upon the number in the group. Distribute several copies of Visual 1 to each group.

2. Explain that you will read situation cards from Activity 1. Each situation involves a choice. Each group should develop criteria, evaluate the alternatives, and make a choice. It may be necessary to make some assumptions when developing criteria.

3. Explain that a different person from the group will be responsible for conveying the group's answer to each situation. You will call a number from 1 to 3 or 4, point to a group, and ask the person with that number to report the group's criteria and decision.

4. Discuss the answer with the class, and ask how many other groups reached the same decision.

5. Continue to read situations, call numbers, and solicit responses.

ASSESSMENT

Collect ads or pamphlets displaying a large number of similar products, such as checking accounts at a local bank, computer systems, and cellular telephone options. Distribute a copy of Visual 1 to each student. Explain that students should choose the product that best satisfies their wants. Students will be evaluated on their ability to develop criteria, evaluate alternatives, and use the decision grid as a tool.

VOCABULARY

Alternatives are two or more desired goods and services.

Criteria are standards or measures of value that people use to evaluate what is most important.

Comparison shopping is a method of decision making that evaluates the advantages or benefits and disadvantages or costs of buying similar products.

VISUAL 1
DECISION-MAKING GRID

Alternatives	Criteria			

From *Personal Finance Economics, 9-12: Wallet Wisdom,* ©National Council on Economic Education, New York, NY

ACTIVITY 1
SITUATION CARDS

You are a high school senior who is thinking about either attending a two-year community college after graduation or going to work. Which would you choose?

Financial planners suggest that people should save from 5 - 10% of their income. Should you save 5 - 10%?

You are a high school senior who is thinking about going to the prom. After talking with other students, you learn that the prom may cost as much as $300 - $500 for you and your parent(s). Should you go to the prom?

You are scheduled to work at the Burger Doodle on Friday night, when the biggest football game of the year against your crosstown rival is scheduled. Should you attend the game?

You are going to open a checking account at a nearby bank. You choose the bank that has low fees and is open on Saturday mornings instead of the one that is closer to your home. Did you choose the right bank?

**Bonus Question: You decide to open a charge account at a local Unlimited store so you can charge your purchases and pay for them over time instead of saving for them ahead of time. Should you have used a credit card?

LESSON TWO

LEARNING, EARNING, AND SPENDING

INTRODUCTION

Having a part-time job flipping hamburgers at the Burger Doodle for minimum wage is very different from having a career in the rapidly growing fast-food industry. Since earned income is likely to be the primary source of funds for most young adults, it is wise for them to give some thought to how they will earn a living and how that income will affect their lifestyle and spending choices. Those workers who choose to increase their human capital — their knowledge, skills, and experience through education and training — come to the market with a great deal of power. Not only are they likely to earn more, but workers who possess a combination of skills that is relatively scarce will also be likely to have more flexible work schedules, interesting work, or choice of type of work.

Wages are an indicator of relative scarcity in the labor market. A worker who brings a relatively scarce combination of skills to the market commands higher income and benefits. Though investing in one's human capital has significant costs and some economic risks, the increase in income it typically generates directly affects an individual's future standard of living.

CONCEPTS

Disposable Income
Earned Income
Human Capital
Opportunity Cost
Relationship among education/training, income, and standard of living
Relative Scarcity
Standard of Living

OBJECTIVES

♦ Apply the concepts of supply and demand, relative scarcity, and price to the labor market
♦ Prepare a budget
♦ Make recommendations about investing in human capital
♦ Use opportunity cost to make decisions

LESSON DESCRIPTION

Students rank various jobs according to the level of education or training needed to perform the job, the level of skill required, how much people might be willing to pay to have someone perform these jobs, and the number of people in the economy possessing those skills. Working in groups, students analyze data and make generalizations about the relationship between developing a set of skills that are scarce and annual median income. Then, through a simulation, they discover the relationship between career choice, the spending options that result, and their effects on standard of living. As an assessment, students are asked to write a letter to another student, identifying what they have learned regarding better decision making in the development of their human capital.

TIME REQUIRED

♦ Two to three class periods

MATERIALS

Ten large index cards or poster board, as described in Procedure 2
Transparency of Visual 2
Protractors
One copy of Activity 2 per group
One copy of Activity 3 per student
Visual of Activity 3
One copy of Activity 4 (cut into strips)
One copy of Activity 5 for each student
One copy of Activity 6 for each student
Tape or thumbtacks
A bowl or box for slips cut from Activity 4

PROCEDURE

1. Inform students that this lesson focuses on the relationship among learning, earning, and

spending income in order to achieve a desired standard of living.

2. Explain that because earned income (wages or salaries paid for labor services) is likely to be the primary source of funds for most young adults, it is wise for them to give thought to how they will earn a living and how income from the career they choose will affect their spending choices and their future standard of living.

3. Select 10 students to represent different workers. Have the workers stand in front of the class holding large index cards, each listing one of the following jobs.

Deliver pizza
Defend a person accused of murder
Shovel a snow-covered sidewalk
Prepare a speech for the President
Remodel a kitchen
Perform a liver transplant
Pitch in a professional baseball game
Play a harp in a symphony orchestra
Teach a child to read
Repair a copying machine

4. Ask each student to announce his or her job.

5. Have the students place their index cards randomly along the chalk tray at the front of the room. Then ask the students to return to their seats.

6. Divide the class into four groups. Distribute a copy of Activity 2 to each group.

7. Explain that each group will rank the workers according to one of four criteria: (1) the skill level required to perform the job, (2) the level of education and training needed to perform the job, (3) how much the group would be willing to pay the worker to perform the job, and (4) the number of workers in the economy with skills to perform the job.

8. Each group should be assigned only one of the criteria. Students in that group should rank each job performed from 1 to 10, using the assigned criterion. (One is the lowest ranking and ten is the highest, except for group 4 in which 10 represents the lowest number of workers and 1 represents the largest number of workers.)

9. When completed, record the rankings of each group (1 - 10) on the chalkboard above the corresponding index cards. Add the four numbers for each job to obtain a final ranking.

10. Ask the student-workers to return to the front of the classroom, reclaim their job cards, and note the ranking. Arrange the index cards in order by ranking. Discuss individual job rankings and how individual groups made their choices.

11. Point out that the method they just used to rank workers is similar to the way workers in our economy are evaluated and paid. When there are relatively few workers with high-level skills who are available to sell their skills at various wage rates and many employers who are eager to hire the workers at those wage rates, workers will receive high wages. When there are many workers with few or low-level skills available to sell their skills at various wage rates to employers who are eager to hire relatively few of them at those wage rates, those workers will receive low wages.

12. Point to those index cards with the lowest rankings. Explain that people with little education have few skills to bring to the market. It is likely, therefore, that their wages will be low. Discuss:

A. What is the current minimum wage allowed by law?

B. What are some examples of jobs that pay minimum wage? (Answers will vary.)

C. What skills are needed for these jobs? (Answers will vary.)

13. Write $10,400 on the chalkboard and point out that this is the yearly income of a near minimum wage-earner ($5 per hour, $867 a month). Most disposable income (the after-tax money available for spending and saving; for example, $815) is used to

pay for necessities. On the other hand, occupations that are highly rated (point to the other end of the line) provide wage earners with many more options.

14. Ask role players to return to their seats.

15. Display Visual 2 and explain that this pie graph represents the recommended budget for a minimum wage earner. Ask:

A. On which expenses is most of the disposable income spent? (housing, transportation, and food)

B. How much money is left for miscellaneous spending? ($65 a month; $16.25 a week)

C. What types of goods and services would fall in this category? (gifts, video rentals, newspapers, CDs, hobbies, vacations, concert tickets)

16. Ask the class how a minimum wage earner with few skills could increase his or her income. (through education and training)

17. Explain that human capital refers to the knowledge, skills, and experience that people bring to the market in exchange for wages. Those who possess a set of skills that are relatively scarce can command a higher price (wages) for those skills. Discuss:

A. How are wages the indicators of relative scarcity in the labor market? (A worker who brings a relatively scarce set of skills to the market can command a higher wage.)

B. How would changes in the supply of and demand for workers affect their relative scarcity and wages? (When the supply of workers with a relatively scarce set of skills increases and demand is unchanged, average wages decrease. When the supply of workers with a relatively scarce set of skills decreases and demand is unchanged, wages increase. When the demand for workers with a relatively scarce set of skills increases and supply is unchanged, wages increase. When the demand for workers with a relatively scarce set of skills decreases and supply is unchanged, wages decrease.)

C. Besides higher wages or salaries, what other benefits might a worker who possesses relatively scarce skills be able to command? (flexible work schedule, interesting work, good work location, choice of type of work)

D. What does a person who obtains more education and training give up in order to develop his or her human capital? (income that could have been earned during that time and other alternative uses of that time) Explain that the highest valued alternative that is given up when a choice is made is called the opportunity cost.

E. Why would someone choose to give up income and alternative uses of time in order to develop human capital? (He or she is hoping that additional training and education will yield greater future benefits compared with these costs.)

F. What risks are associated with the choice to invest in human capital? (The additional skills may not be marketable or there may be too many people with those same skills. A job paying higher wages is not guaranteed.)

18. Distribute a copy of Activity 3 to each student.

19. Ask the class to analyze the charts with you. Point out that median annual income means the midpoint at which half of the workers in each group have higher levels of income and half lower. Discuss the following questions:

A. What does the chart show about the relationship between the level of education and the indication of relative scarcity in the market? (The earnings of people with more education and a greater combination of

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skills are higher than the earnings of individuals with less education and fewer skills.)

B. In 1992, how much more did the high school graduate earn per year than the high school dropout? ($5,313)

C. How much more did the high school graduate earn over a lifetime (45 years)? ($239,085)

D. How much more did a person with a bachelor's degree earn per year than the high school graduate? ($13,144)

E. Over a lifetime (40 work years for college graduates versus 45 years for high school graduates), approximately how much more did the college graduate earn than the high-school graduate? ($419,555)

F. Into which educational group did most Americans fall? (high school graduates, 37%)

G. What percentage had a bachelor's degree or better? (18%)

H. What percentage of the population was composed of high school dropouts? (23%)

I. Of the students who started college, what percent dropped out? (18%)

J. What, then, is the opportunity cost of additional education and what are the economic risks? (Opportunity costs involve the lost income and alternative uses of time; risks include the possibility that the added education will not yield better employment.)

20. Ask students to mark their planned level of education on Acitivty 3. Have them do an internal check as to whether that income will match their desired lifestyle and whether the benefits of their educational goals outweigh their costs.

21. Point out that the average adult spends about 80,000 hours working in his or her lifetime. Therefore, it would be smart for students to choose something they like, as well as a career that will generate enough income to satisfy their desired standard of living.

22. Have students draw career slips from a bowl (Activity 4).

23. Distribute a copy of Activity 5 to each student. Ask them to assume they have just graduated from high school or college and have chosen the career and its salary listed on the career slip they drew.

24. Instruct students to enter their career choice on Activity 5.

25. Have each student calculate his or her monthly salary (salary divided by 12) and enter it on the budget sheet.

26. Instruct students to subtract 10% of their monthly salary for taxes and enter the new salary amount as "Monthly Salary After Taxes."

27. Instruct students, using the Budget Plan as a guide, to calculate the amount of money they will have available each month for each spending category, and have them enter the dollar amounts on the appropriate line in the "Dollar Amount - Budgeted" column.

28. Distribute a copy of Activity 6 to each student.

A. Announce that students may buy as many of the items as they wish as long as they have sufficient income in their monthly budget. They may not spend more than they have budgeted in each category.

B. Under "Miscellaneous," they may choose to buy whatever they wish in whatever quantity they want. For example, if they would like to rent one video a week, the total spending is $16.

C. Students should identify an amount they wish to save and assume the 7% credit payment is accurate.

D. Students should record the amount spent beside each budget category on the chart in the "Dollar Amount - Actual" column. (Prices are based on national averages; you may wish to adjust them if the local cost of living is higher or lower.)

CLOSURE

1. When the activity is completed, ask several students with varying incomes to share their spending choices.

2. Reinforce the fact that wages or salaries are indicators of relative scarcity in the labor market. The worker who brings a relatively scarce combination of desirable skills to the market commands higher income and has more control over working conditions.

3. Discuss the opportunity cost and risk related to developing human capital required for various careers.

4. Instruct students to display their spending plans around the room for other students to examine.

5. Ask students to identify workers with a higher standard of living.

ASSESSMENT

Have students write a letter of advice to a middle school student about the relationship among investing in human capital, wages, and standard of living. Instruct students to include information about relative scarcity and supply of and demand for labor as well as the opportunity cost and risk related to investment in human capital. Students should also include their expectations in terms of learning, earning, and spending.

EXTENSION ACTIVITIES

1. Distribute classified advertisements from the local Sunday newspaper, one for every two students. Ask students to circle any job type that is listed at least five times. Then have students in pairs record on the chalkboard the circled job openings under "College degree required" or "No college degree required." Categorize the jobs when possible, such as medical or sales, and discuss the current demand for workers as illustrated by the classified ads.

2. If school policy permits, have students interview their parent(s) and construct a pie graph that indicates the percentages (not dollars) of the family income spent on items in their budget. Combine all graphs into a single graph for the class, and compare it to the recommended budget.

VOCABULARY

Demand is the relationship between the quantity of a resource, good, or service consumers are willing and able to buy at various possible prices during a specific time period.

Disposable income is income available for saving and spending received after taxes.

Earned income is wages or salaries paid (earned) for labor services.

Human capital is the knowledge, skills, and experiences that people bring to the workplace in exchange for wages.

Opportunity cost is the highest valued forgone alternative when a choice is made.

Standard of living is the level of material well-being of an individual or group.

Supply is the relationship between the quantity of a resource, good, or service that producers are willing to produce and sell at various prices during a specific time period.

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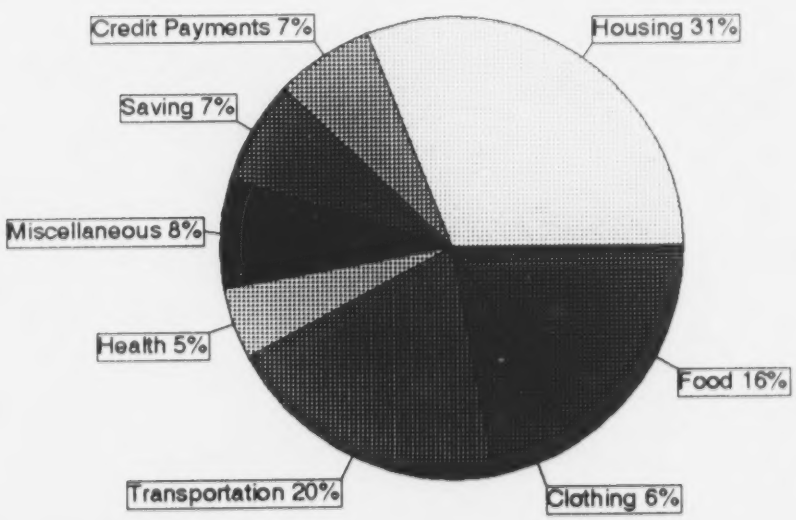
VISUAL 2
BUDGET PLAN

$815 a month, after taxes

Category	Percent of Monthly Salary	Dollar Amount
Housing	31%	($253)
Food	16%	($130)
Clothing	6%	($ 49)
Transportation	20%	($163)
Health	5%	($ 41)
Miscellaneous	8%	($ 65)
Saving	7%	($ 57)
Credit Payments	7%	($ 57)



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ACTIVITY 2
THE JOB LINE-UP

Circle your group's assigned criteria.

1. **Skill level required to perform the job** (Rank from 1 to 10; 10 is highest.)
2. **The level of education/training required to perform the job** (Rank from 1 to 10; 10 is highest.)
3. **The amount the group is willing to pay the worker to perform the job** (Rank from 1 to 10; 10 is highest.)
4. **The number of workers with the skills to perform the job** (Rank from 1 to 10; 1 is highest.)

Job Performed

Deliver pizza	_____
Defend a person accused of murder	_____
Shovel a snow-covered sidewalk	_____
Prepare a speech for the President	_____
Remodel a kitchen	_____
Perform a liver transplant	_____
Pitch in a professional baseball game	_____
Play a harp in a symphony orchestra	_____
Teach a child to read	_____
Repair a copying machine	_____

ACTIVITY 3
EDUCATION AND MEDIAN ANNUAL INCOME DATA

Education Completed	Median Income 1992
No high school diploma	$15,928
High school diploma	$21,241
Associate degree	$30,052
Bachelor's degree	$34,385
Master's degree	$40,666
Ph.D. degree	$52,403
Professional degree	$67,131

Bureau of Labor Statistics, 1992

Nearly 1 in 4 Have Earned a Post-Secondary Degree
(Highest degree earned, adults 18 and over: spring 1987)

Professional	1%
Doctorate	1%
Master's	4%
Bachelor's	12%
Associate	4%
Vocational (post secondary)	2%
Some college (no degree)	18%
High school graduate only	37%
Not a high school graduate	23%

Note: Percentages do not add to 100 due to rounding.

Source: U.S. Department of Commerce
Bureau of the Census 1992

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ACTIVITY 4
STARTING SALARIES

Flight Attendant $13,000	Auto Mechanic $12,000	Stockbroker $19,800
Accountant $28,000	Medical Assistant $13,000	Funeral Director $17,000
Public Relations/Advertising $21,000	Manager Convenience Store $21,000	Petroleum Engineer $40,700
Landscape Architect $20,000	Computer Systems Analyst $25,200	Meteorologist $18,000
Lawyer $36,600	Broadcaster $23,600	Recreation Worker $7,700
Social Worker $20,000	Optometrist $45,000	Graphic Designer $21,000
Air Traffic Controller $22,700	Cashier $10,000	Travel Agent $12,400
Bank Teller $11,000	Office Clerk $13,000	Teacher $23,600
Carpet Installer $8,400	FBI Agent $30,600	Home Appliance Repairperson $13,499
Carpenter $13,400	Fire Fighter $31,000	Roofer $9,600

ACTIVITY 5
BUDGET PLAN

Career _____ Monthly Salary _____

Monthly Salary After Taxes _____

Category	Percent of Monthly Salary	Dollar Amount Budgeted	Dollar Amount Actual
Housing	31%	_____	_____
Food	16%	_____	_____
Clothing	6%	_____	_____
Health	5%	_____	_____
Transportation	20%	_____	_____
Credit Payments	7%	_____	_____
Saving	7%	_____	_____
Miscellaneous	8%	_____	_____

Source: Consumer Credit Counseling Service

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ACTIVITY 6
MONTHLY BUDGET OPTIONS

Housing, Electricity, Telephone Options	
Live at home, pay rent	$ 100
Apartment with friend(s)	$ 200
Apartment, one bedroom Older appliances, radiators, tile floor No dishwasher, disposal, no air conditioning	$ 404
Apartment, one bedroom New apartment; newer appliances, including disposal, dishwasher, and air conditioning	$ 499
Apartment, two bedroom Older apartment in large complex; includes dishwasher, disposal, and air conditioning	$ 600
Apartment, two bedroom Newer apartment; new appliances, including dishwasher, disposal, air conditioning; separate dining and kitchen; pool and fitness room on premises; economy washer and dryer in kitchen	$ 695

Food Options (Groceries/Eating Out)	
Groceries	
$30/week	$ 120
$45/week	$ 180
$54/week	$ 215
$62/week	$ 250
$81/week	$ 325
$100/week	$ 400
Eating Out	
Fast Food (per meal):	$ 5.00
Restaurant Dining (per person):	$15.00

Transportation Options (Car payment, insurance, gas, maintenance)	
Public Transportation	$ 75
Used Car (Toyota Celica)	$ 190
Used Car (Ford Escort)	$ 325
Used Car (Honda Accord)	$ 440
New Economy Car (Hyundai Excel)	$ 295
New Economy Car (GeoPrism)	$ 379
New Mid-Sized Car (Chevy Cavalier)	$ 469
New Mid-Sized Car (Toyota Camray)	$ 523
New Mid-Sized Car (Monte Carlo)	$ 589
Ford Bronco	$ 620
Chevy Blazer	$ 697
New Luxury Car (Lexus)	$ 890
New Luxury Car (BMW)	$ 937

Health Options (doctor, dentist, insurance, prescriptions, glasses)	
$ 28 - $150	
Health Insurance (per month)	$ 35
Glasses	$150
Doctor Visit	$ 30+
Eye Exam	$ 60
Dentist	$ 50

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ACTIVITY 6
BUDGET OPTIONS (Continued)

Clothing Options (clothes, shoes, cleaning, repair)

$ 10 - $175

New Clothes:	You choose
New Shoes:	$19.00 and up
Cleaning	
Dress shirts	$ 1.25
Dress	4.00
Sweater	3.50
Suit	6.00

Saving Options

$45 - $250

Credit Options

$ 60
$ 75
$100
$125
$175
$225
$250

Miscellaneous Options

Movie Tickets	$ 6.00
Books	6.00
Pets	10.00
Pocket Money	40.00
Gifts	25.00
Cable Television	28.00
Trips/Vacations	120.00
Personal Care Items (makeup, shaving cream)	15.00
Video Rental	4.00
Magazine Subscription	12.00
Haircut	10.00+
Newspaper Subscription	15.00
Concert Tickets	30.00
CDs	16.00
Hobbies	30.00+
Sporting Events	25.00+

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HOW MUCH IS TOO MUCH?

INTRODUCTION

In economics the term marginal means additional or extra. Marginal decisions involve weighing the extra benefits to be gained from an option against the extra costs. As spenders, savers, borrowers, and money managers, young people make decisions at the margin all the time. When consumers compare similar goods and services, they weigh whether the additional satisfaction they will gain from buying one product instead of another is worth the extra cost. Generally, people continue to buy more of something until the additional (or marginal) cost equals or exceeds the gain in satisfaction.

CONCEPTS

Marginal Analysis
Marginal Benefit
Marginal Cost

OBJECTIVES

- Define marginal analysis
- Use marginal analysis to make choices

LESSON DESCRIPTION

In this lesson, students work in groups and use marginal analysis to make choices. In the assessment, students choose an apartment using marginal analysis.

TIME REQUIRED

- Two days

MATERIALS

Eight granola bars; 8 quarters ($.25)
Transparency of Visual 3
Two cans of soft drink, one generic and one well-known brand name
One copy of Activities 7 and 8 for each student

PROCEDURE

1. Ask students why they buy any product. (because they want it)

2. Explain this lesson introduces them to a tool that can help them with purchasing decisions. This tool is called marginal analysis.

3. Explain that in economics, marginal means additional. Marginal analysis involves evaluating the additional benefits and costs of a decision.

4 Ask for a volunteer to eat granola bars. Give that student $2 in quarters.

5. Explain that you will sell the student granola bars for a quarter each. Collect a quarter for the first granola bar, and ask the student to eat the bar. Then ask:

   A. What was the benefit (some satisfaction of hunger) and cost ($.25) of eating the first candy bar?

   B. Ask the volunteer if he or she would like to buy a second bar for $.25. If yes, collect the quarter and ask the student to eat the granola bar. Ask the class:

      1. What was the marginal (additional) benefit (additional satisfaction of hunger) and marginal (additional) cost? (another $.25)

      2. Was the marginal benefit of eating a second granola bar greater than the marginal cost? (Yes, if it weren't, the student would not have purchased the second bar.)

   C. Continue the demonstration until the student decides the marginal benefit from consuming one more granola bar is less than the marginal cost.

6. Tell students that many of the decisions they make involve the use of marginal analysis. Provide the following examples.

A. Imagine you are offered a job in which the number of hours you work are flexible. Would you choose 10 hours? How much additional benefit would you receive if you worked an additional hour? What are the additional costs? (Answers will vary.)

B. You've enrolled in six classes for next year. Would one more class provide additional benefit? What additional costs would be involved? (Answers will vary.)

C. After a great dinner, your friend asks you to go out for ice cream. Would you take him up on the offer? Would one scoop be enough or would you want an additional scoop? (Answers will vary.)

7. Display Visual 3 to reinforce the terms. Discuss:

A. What are the marginal benefits and marginal costs of buying one more pair of jeans? Why? (Answers will vary.)

B. What choice would you make between one more compact disk and one more trip to a movie? Why? (Answers will vary.)

C. Would you choose to "supersize" your fast-food order? Why? (Answers will vary.)

9. Inform students that economic reasoning assumes that people make certain choices because they expect those choices to provide greater net benefits than alternative choices. Using marginal analysis (weighing the additional benefits with the additional costs) helps spenders, savers, and borrowers.

10. Point out that marginal cost is not always monetary. Use the following examples.

A. If you have exercised at the fitness center for over an hour and are trying to decide whether you want to continue for another half hour, you must weigh the marginal cost of the future discomfort to your body as well as time invested against the additional benefit of the extra exercise.

B. You and your classmates really like to watch videos during class time. However, one Wednesday, every one of your teachers decides to show a video during his or her class. Near the end of the day, the additional satisfaction from one more hour of video is falling.

11. Help students understand that marginal analysis is a tool that can help spenders, savers, and borrowers examine the added benefits and costs of a decision. Generally, people are willing to buy more of something until the marginal cost equals or exceeds the marginal benefit in satisfaction.

12. Divide students into groups, and distribute Activity 7. Explain that this activity will give them practice in making decisions at the margin. When completed, groups should share their answers with the rest of the class. Answers will vary depending on the student.

CLOSURE

1. Have each group design a spending situation in which marginal analysis can be used.

2. Collect the samples, and redistribute them among the groups.

3. Have the receiving group use marginal analysis to make a group decision. Ask each group to explain why the chosen option was the best.

ASSESSMENT

Distribute a copy of Activity 8 to each student. Instruct students to read the directions and use marginal analysis to choose which apartment they will rent. Answers will vary depending upon individual tastes and preferences.

EXTENSION ACTIVITIES

1. Visit a car dealership so that students can see first-hand the prices of cars and can use marginal analysis to make a choice.

2. Ask a realtor to take your class on a tour of several apartment rentals. Have students use marginal analysis to make a choice.

VOCABULARY

Marginal analysis is a method of decision making that involves weighing the additional benefits with the additional costs of an additional unit of something.

Marginal cost is the additional cost of something.

Marginal benefit is the additional benefits received from something.

VISUAL 3
MARGINAL MEANINGS

MARGINAL ANALYSIS is a method of decision making that involves weighing the additional benefits and the additional costs of an additional unit of something.

MARGINAL COST is the additional cost of something.

MARGINAL BENEFIT is the additional benefit received from something.

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ACTIVITY 7
YOUR FIRST CAR

You have found two used automobiles for sale at a dealership in your town. Both vehicles are the same model, one that you have always wanted. The first, Car A, with a sticker price of $5,000, has a limited number of options, while the second, Car B, with a sticker price of $7,500, has numerous options, such as air conditioning, automatic locks, and cruise control. Both are in good condition. Using marginal analysis, compare the additional costs and the additional benefits of buying Car B.

Going from Car A to Car B

Marginal Cost

Marginal Benefits

Which car would you buy and why? _____

_____

_____

ACTIVITY 7 (Answers)
YOUR FIRST CAR

You have found two used automobiles for sale at a dealership in your town. Both vehicles are the same model, one that you have always wanted. The first, Car A, with a sticker price of $5,000, has a limited number of options, while the second, Car B, with a sticker price of $7,500, has numerous options, such as air conditioning, automatic locks, and cruise control. Both are in good condition. Using marginal analysis, compare the additional costs and the additional benefits of buying Car B.

	Going from Car A to Car B
Marginal Cost	$2,500
Marginal Benefits	Air conditioning, automatic locks, cruise control, and other options.

Which car would you buy and why? (Answers will vary.)

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ACTIVITY 8
YOUR FIRST APARTMENT

You have just graduated from high school or college. You and a friend are planning to rent an apartment together as soon as possible. Each of you can contribute $375 a month toward the rent. You have located two apartments in the same apartment complex, and you must make a choice.

Apartment A rents for $500 a month, is on the second floor, has two bedrooms, has reasonably sized rooms with little closet space, contains dishwasher and disposal, has one bathroom, has a coin-operated laundry in the basement, is located five minutes from stores, and is well maintained.

Apartment B is the same as A with the following exceptions. It rents for $700 a month; it is a first-floor apartment with a larger living area and larger closets; it contains a stack washer and dryer; and it has two bathrooms.

Renting Apartment B instead of Apartment A

Marginal Benefits

Marginal Cost

Using marginal analysis, which apartment did you choose? _____

In the space below, explain your use of marginal analysis to defend your choice.

_____

_____

Why do you expect this choice to give you the greatest amount of satisfaction per dollar spent?

_____

_____

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ACTIVITY 8 (Answers)
YOUR FIRST APARTMENT

You have just graduated from high school or college. You and a friend are planning to rent an apartment together as soon as possible. Each of you can contribute $375 a month toward the rent. You have located two apartments in the same apartment complex, and you must make a choice.

Apartment A rents for $500 a month, is on the second-floor, has two bedrooms, has reasonably sized rooms with little closet space, contains dishwasher and disposal, has one bathroom, has a coin-operated laundry in the building's basement; is located five minutes from stores, and is well maintained.

Apartment B is the same as A with the following exceptions. It rents for $700 a month; it is a first-floor apartment with a larger living area and larger closets; it contains a stack washer and dryer; and it has two bathrooms.

	Renting Apartment B instead of Apartment A
Marginal Benefits	First-floor, larger living area, larger closets, washer and dryer, two bathrooms
Marginal Cost	$200 per month

Using marginal analysis, which apartment did you choose? Answers will vary

In the space below, explain your use of marginal analysis to defend your choice.

Answers will vary.

Why do you expect this choice to give you the greatest amount of satisfaction per dollar spent? Answers will vary

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LESSON FOUR

PROM TRADE-OFFS

INTRODUCTION

Managing money involves decision making. In a market economy, individual tastes, income, and price influence the choices that consumers make. Price is a measure of the relative scarcity of products. Providing information to spenders encourages them to make better spending choices. Using prices as guides, students learn to weigh the relative benefits and costs of alternatives, choosing the one that provides the greatest anticipated satisfaction at the lowest cost.

CONCEPTS

Benefit/Cost Analysis
Budgeting
Choice
Opportunity Cost
Price
Substitutes
Taste and Preference
Trade-offs

OBJECTIVES

♦ Identify the trade-offs associated with financial choices

♦ Identify a change in tastes and preferences as a determinant of demand

♦ Identify the impact of price on decisions

♦ Use the concepts of trade-offs, taste and preferences, and price to make a choice

LESSON DESCRIPTION

Students create a list of wants for their school prom. Next they prioritize their wants by ranking items on their wish list, noting that other students' lists differ because their tastes and preferences differ. Then working in groups, they examine a case study focusing on a prom, determine a spending plan for the couple in the scenario, and using benefit/cost analysis, make choices about what the couple should buy. In the assessment, students are given income and expenses for a young adult and are directed to use economic knowledge to choose how to make additional spending and saving choices.

TIME REQUIRED

♦ Two class periods

MATERIALS

One copy of Activity 9 for each student
One copy of Activity 10 for each student

PROCEDURE

1. Discuss why people, who are basically similar, buy different things. For example, why do students buy different types of clothing, different CDs, or different food? (People buy different things because they have different incomes, different life experiences, different goals, and different tastes.)

2. In small groups, ask students to create a wish list of items for a prom. The list should include items for both boys and girls. Tell them the list must include clothing, transportation, tickets, haircuts or hair styling, flowers, and other expenses.

3. Ask each group to share its list with the class. As each group reports, list the items on the board.

4. Tell the students that because they either work part-time or do not work at all, the amount of money they have to spend on the prom is limited. Additionally, because their parents' incomes are limited, they can only make a small contribution toward prom expenses.

5. Ask each group to examine the list of items on the chalkboard and prioritize the items as 1, 2, or 3 (1 is a high priority, 2 is a middle priority, and 3 is a low priority). When the ranking is complete, ask one representative from each group to write its rankings beside each item on the chalkboard.

6. Ask the students why there are differences among the groups' choices. (People with similar incomes have different tastes and preferences that influence their choices about what to buy. These

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differences cause the anticipated benefits that people receive from their purchases to vary.)

7. Write "deluxe tux" and "tux" on the chalkboard. Explain that these two items are substitutes for one another. Substitutes are goods or services that can be used in place of other goods or services.

8. Attach a price of $200 to the deluxe tux and $125 to the tux. Discuss:

A. How does price help a person make choices? (Price helps consumers compare the value of one good or service to another.)

B. How does knowing the price of a substitute product help a person make spending choices? (Prices, along with tastes and preferences, help consumers weigh the benefits and costs of alternatives before making a choice.)

9. Explain that when students know the prices of items they want for prom night, they can make better decisions, because prices act as guides.

10. Distribute a copy of Activity 9 to each student. It describes a couple that has choices to make about a prom date.

11. Divide the class into groups. Have students read the case study and use benefit/cost analysis to decide which items Tsubasa and Tamoko will buy. In each category, groups should ask:

A. What are the benefits and costs of each item in the category?

B. Would the selection of one item over another in the category yield higher satisfaction per dollar spent?

12. Instruct groups to circle each item chosen and answer the questions on the worksheet.

13. Ask each group to report its spending choices. Discuss:

A. What overall similarities and differences do you see on the lists? (All students weighed the benefits and costs of the various options and selected the item in each category that maximized their satisfaction, but their preferences among alternatives differed.)

B. Could the income spent on the items circled be used to buy other things? If so, why didn't students choose other items? (The income was not spent another way because other alternatives did not provide as much satisfaction per dollar spent.)

C. Did each group expect its selections to yield the highest satisfaction per dollar spent? (Yes, otherwise different choices would have been made.)

14. Explain that a trade-off involves getting a little more of something in exchange for a little less of something else. For example, a couple might decide to spend less on transportation in order to spend more on food.

15. Ask the students for examples of trade-offs they made with their selections.

16. Explain that in making choices, people incur opportunity costs. Opportunity cost is the highest valued alternative given up when a decision is made. For example, if they chose the deluxe tux for the prom, they gave up the next highest valued alternative — the tux.

17. Ask the students to identify the opportunity cost of their selection in each category.

CLOSURE

1. Ask each group to summarize in one sentence how benefit/cost analysis helps people make better spending choices.

2. Ask each group to write its sentence on the board.

3. Discuss their sentences.

4. As a homework assignment, have each student examine a personal finance problem and use benefit/cost analysis to choose a solution.

ASSESSMENT

Distribute a copy of Activity 10 to each student. Instruct students to read the instructions and complete the work.

VOCABULARY

Benefit/Cost Analysis is a method of decision making that involves weighing the benefits and costs of various alternatives.

Criteria are standards or measures of value that people use when evaluating an alternative.

Opportunity cost is the highest valued forgone alternative when a choice is made.

Price is the amount of money people pay in exchange for a good or service.

Substitute is a good or service used in place of another good or service.

Trade-offs involves getting a little more of one option in exchange for a little less of something else.

ACTIVITY 9
PLANNING FOR THE PROM

Tsubasa and Tamoko have been dating for most of their senior year and are going to the prom together. They want the evening to be special, but are concerned about how much it will cost.

Tsubasa's parents have agreed to kick in $100 to help him out, but he must pay the rest himself. From his part-time job and his allowance, Tsubasa has saved $95.

Tamoko has been saving part of her income for a while and has saved $360 for the prom. Her parents appreciate all her hard work and planning, but with two older children in college and Tamoko starting next year, they just cannot help out with prom expenses.

The prom is held at a local hotel; it begins at 8 p.m. and continues until midnight. Light refreshments are served throughout the event.

PROM EXPENSES - WISH LIST/OPTIONS				
				EX-PENSE
Ticket				$30.00
HIS OPTIONS		**HER OPTIONS**		
Dinner:				
Forgo dinner	$ 0			
At home (per couple)	10.00			
Reasonable restaurant	30.00			
Expensive restaurant	80.00			
Transportation:				
Walk	$ 0			
Family car	5.00			
Limousine (with another couple)	30.00/hr.			
Suit:		**Dress:**		
One you own	$ 0	Borrow or use one you own	$ 0	
Deluxe tux rental	200.00	New dress @	100.00	
Tux rental	125.00		175.00	
			$250.00	
Shoes:		**Shoes:**		
Pair you own	$ 0	Pair you own	$ 0	
Discount shoe store	30.00	Discount shoe store	20.00	
Moderate shoe store	70.00	Moderate shoe store	50.00	

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ACTIVITY 9 (Continued)
PLANNING FOR THE PROM

Flowers:		**Flowers:**		
Corsage	$20.00	No boutonniere	$ 0	
Corsage	35.00	Boutonniere	7.00	
		Boutonniere	3.00	
Haircut/Style:		**Haircut/Style:**		
Do your own styling	$ 0	Do your own	$ 0	
Cut at barber	10.00	Wash & style at salon	25.00	
Cut & style at barber	20.00	Wash, cut, and perm at salon	70.00	
		Miscellaneous:		
		Nails/Makeup:		
		Do at home	$ 5.00	
		Beauty salon	35.00	
		Accessories:		
		Earrings	$20.00	
		Necklace	25.00	
		Panty hose	5.00	

1. Examine the options Tsubasa and Tamoko have for spending on the prom. What things should Tsubasa pay for? Tamoko? Are there any that could be shared? What is the reason Tsubasa and Tamoko will have to make choices?

2 Criteria depict your goals, values, and tastes when making choices. When choosing transportation for the prom, what criteria entered into your group's choice?

3. Trade-offs occur when you get a little more of one option in exchange for a little less of something else. Give one example of a trade-off your group made in this exercise.

4. Opportunity cost is the next best alternative given up when a choice is made. When Tsubasa (or Tsubasa and Tamoko) chose to buy the ticket for the prom, what was the opportunity cost of that choice?

5. What amount will Tsubasa contribute to prom expenses? _____

   What amount will Tamoko contribute to prom expenses? _____

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ACTIVITY 10
MY SPENDING PLAN

It's three months to prom night. This important (and expensive) event takes careful planning. How would you handle it?

Plan your prom night by preparing your actual budget, not to exceed $300. Research options regarding your apparel, flowers for your date, dinner, and transportation. Answer the questions below, summarizing your course of action.

1. What type of apparel have you chosen? How did you acquire it? What accessories does your outfit include? What was the total price?

2. What type of flowers have you chosen? Where did you buy them? What was the price?

3. Where have you arranged to have dinner? What was included? What was the price?

4. What type of transportation have you arranged? What was the price?

5. How did price affect your decisions?

6. How did the availability of substitutes affect your decisions?

7. How did you use trade-offs to maintain your budget?

8. How did you use benefit/cost analysis to make your decision?

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TIMING IS EVERYTHING

INTRODUCTION

Income after taxes is used for two purposes: spending and saving. The benefit of consuming things today versus the benefit of consuming some things later through saving depends upon the student's understanding of opportunity cost. Most students do not save because they perceive that the opportunity cost is too great. However, when they begin to understand the power of compound interest over time, they may decide that the benefits of saving are, in fact, greater than the benefits of spending the money today. Financial success is rarely achieved unless individuals choose to postpone some current spending on present wants by saving some income. Many young people think they don't have enough income to save and, as a result, they postpone a regular saving program. Young adults who choose to start saving early and regularly to take advantage of the magic of compound interest can build their personal saving into a comfortable nest egg.

CONCEPTS

Compound Interest
Incentives
Interest Rate
Opportunity Cost
Saving

OBJECTIVES

♦ Identify the opportunity cost of and incentives for spending and saving

♦ Analyze and explain the relationship among time, amount saved, and the interest rate and its impact on savings growth

LESSON DESCRIPTION

Students examine the incentives and opportunity costs of spending and saving. Two classmates introduce the power of compound interest through a role play which involves the whole class. Groups demonstrate their understanding of the relationship among time, amount saved, and the interest rate impact on savings growth by writing a 30-second radio ad. In the assessment, students decide whether to accept Grandmother's cash gift today or in the future.

TIME REQUIRED

♦ One class period

MATERIALS

One copy of Activity 11, cut into two parts
Self sticking ½" colored dots, 30 yellow and 30 green
Two sheets of poster board with "Casey" on the top of one and "Shaundra" on the top of the other
Transparencies of Visuals 4 and 5
One copy of Activity 12 per group
One copy of Activity 13 per group
One index card per student (all the same color)

PROCEDURE

1. Explain that this lesson focuses on a decision to spend versus save.

2. Explain that income after taxes can be used in two ways. It can be spent or saved. Saving is income not spent on consumption.

3. Explain that sometimes it makes sense to spend today rather than save for the future. At other times, giving up current spending to save for the future yields greater benefits.

4. Discuss some ways high school students earn income, how much income they receive, and how they spend or save that income.

5. Explain that the opportunity cost of a decision is the highest valued forgone alternative. For example, if you choose to buy new athletic shoes, you give up the opportunity to buy something else with your income today or you give up the opportunity to save your income to buy something in the future.

6. Divide the class in half. Divide each half into small groups.

7. Instruct half of the groups to discuss the incentives for and opportunity cost of spending their income. Ask the other half to discuss the incentives for and opportunity cost of saving their income. (Incentives to spend include immediate gratification and peer acceptance, but spending now means giving up something you might want to buy in the future. Incentives to save include reaching a future goal as well as receiving interest that generates more income, but saving means giving up the opportunity to buy the thing you desire now.)

8. Explain that young adults often don't recognize the value of saving because the perceived opportunity cost (present day purchases) seems too great.

9. Point out that when students begin to understand the power of compound interest over time, they may make different saving choices because the opportunity cost of spending may be too great.

10. Explain that when students have completed this lesson, perhaps they will see more advantages and fewer disadvantages to saving at a young age.

11. Select two students, to read the roles on Activity 11. Then pose this question: Which of these two saving plans makes the most sense to you?

12. Distribute one yellow dot to each student.

13. Instruct students to write their initials on the dot and place it on the poster board for the saving plan they support.

14. Ask several students to explain why they selected one plan over another.

15. Display Visual 4. Point out the number of years and the amount each individual contributed to saving (Shaundra: 10 years, $20,000; Casey: 31 years, $62,000) as well as the age the contributions began (Shaundra at age 25; Casey at age 35)

16. Ask students to note the "Value of Retirement" and "Net Earnings" at age 65 for each plan. Point out that while Casey contributed much more toward his retirement ($42,000 more), he never caught up with Shaundra in the value of his net earnings.

17. Ask if anyone can explain why this happened. (compounding of interest over time)

18. Define compound interest as interest earned on saving that includes previously earned interest. Demonstrate compound interest in the following manner:

A. Select two students to go to the chalkboard. Explain they will calculate the interest earned for a deposit of $2,000.

B. Tell the two savers that you will pay them each 5% interest a year on their $2,000 deposits. Student A's interest will be compounded; Student B's will not.

C. After year 1, Student A receives $100 in interest that is added to the savings; Student B also receives $100, but it is not deposited in the account. After one year, Student A has total savings of $2,100; Student B still has $2,000.

D. In year 2, Student A deposits another $2,000. After year 2, Student A receives $205 (5% x $4,100) in interest, which is added to the savings, yielding $4,305. Student B receives $200 (5% x $4,000) in interest that is not deposited into savings. Student B has $4,000 in savings.

E. Ask students to imagine a great deal more money deposited and compounded over 30 to 40 years. This will give them an idea of how much more money can be earned when interest is compounded. Stress that while retirement seems far away, how an individual chooses to save for retirement affects spending now and in the near future.

19. Display Visual 5 and point out how these factors determine the amount that will be available to meet specific financial goals, such as a college fund for a newborn child or a down payment on a home.

20. Explain that in both Casey and Shaundra's saving program, the rate of interest was the same — 9%. Even though Casey saved $42,000 more than Shaundra, it was the amount of time and compounding interest that made the difference.

21. Point out that because Shaundra began saving early in life, she could amass more savings in ten years of contributions than Casey could by starting later and saving for 31 years.

22. Ask students to estimate what Shaundra might accumulate if she continued to contribute $2,000 a year from age 31 to 65. (about $1 million)

23. Now that students know the results of Shaundra and Casey's saving plans, ask them to rethink their choice regarding which plan makes the most sense.

24. Distribute a green dot to each student. Ask them to write their initials on the dot and attach it to the poster board for the plan they support.

25. Examine the differences between the first round of decision making (yellow dots) and the second round of decision making (green dots). Ask why some students changed their minds.

26. Point out that many young people don't think they have enough income to save. As a result, they postpone a regular saving program. This decision can be very costly in the long run.

27. Emphasize the benefits and costs of starting a saving program early and establishing a saving habit. The amount saved is not as important as saving on a regular basis.

CLOSURE

1. Point out the opportunity costs of and incentives for saving and spending, and review the factors that determine the amount that will be accumulated.

2. Divide students into small groups.

3. Explain that each group is responsible for developing a 30-second radio advertisement that explains the relationship among amount saved, interest rate, and time. The ad should be targeted at high school students and young adults.

4. Give the groups time to prepare their ads.

5. Distribute a copy of Activity 12 to each group.

6. Explain that as each group presents, other groups should rate the ads for appropriateness, content, clarity, creativity, and persuasiveness using a scale of 10 (high) to 1 (low).

ASSESSMENT

Distribute a copy of Activity 13 to each student. Instruct students to read the directions and complete the activity. (Answer: If the interest rate on savings is greater than 4% (.04 x $10,000), it would be better to take the money now; with an interest rate less than 4%, it would be better to take the $12,167 in five years.)

VOCABULARY

Compound interest is the earnings on savings that includes previously earned interest.
Interest is the price paid for the use of someone else's savings.
Interest rate is interest expressed as a percentage.
Opportunity cost is the highest valued forgone alternative when a choice is made.
Saving is current income not spent on consumption.

VISUAL 4
IRA INVESTMENT SCENARIO OUTCOME

Shaundra

Age	Years	Contributions	Year End Value
25	1	$2,000	$ 2,188
26	2	$2,000	$ 4,580
27	3	$2,000	$ 7,198
28	4	$2,000	$ 10,061
29	5	$2,000	$ 13,192
30	6	$2,000	$ 16,617
31	7	$2,000	$ 20,363
32	8	$2,000	$ 24,461
33	9	$2,000	$ 28,944
34	10	$2,000	$ 33,846
35	11	0	$ 37,021
36	12	0	$ 40,494
37	13	0	$ 44,293
38	14	0	$ 48,448
39	15	0	$ 52,992
40	16	0	$ 57,963
41	17	0	$ 63,401
42	18	0	$ 69,348
43	19	0	$ 75,854
44	20	0	$ 82,969
45	21	0	$ 90,752
46	22	0	$ 99,265
47	23	0	$ 108,577
48	24	0	$ 118,763
49	25	0	$ 129,903
50	26	0	$ 142,089
51	27	0	$ 155,418
52	28	0	$ 169,997
53	29	0	$ 185,944
54	30	0	$ 203,387
55	31	0	$ 222,466
56	32	0	$ 243,335
57	33	0	$ 266,162
58	34	0	$ 291,129
59	35	0	$ 318,439
60	36	0	$ 348,311
61	37	0	$ 380,985
62	38	0	$ 416,724
63	39	0	$ 455,816
64	40	0	$ 498,574
65	41	0	$ 545,344

Value at Retirement	$ 545,344
Less Total Contributions	$ (20,000)
Net Earnings	$ 525,344

Casey

Age	Years	Contributions	Year End Value
25	1	$ 0	$ 0
26	2	$ 0	$ 0
27	3	$ 0	$ 0
28	4	$ 0	$ 0
29	5	$ 0	$ 0
30	6	$ 0	$ 0
31	7	$ 0	$ 0
32	8	$ 0	$ 0
33	9	$ 0	$ 0
34	10	$ 0	$ 0
35	11	$2,000	$ 2,188
36	12	$2,000	$ 4,580
37	13	$2,000	$ 7,198
38	14	$2,000	$ 10,061
39	15	$2,000	$ 13,192
40	16	$2,000	$ 16,617
41	17	$2,000	$ 20,363
42	18	$2,000	$ 24,461
43	19	$2,000	$ 28,944
44	20	$2,000	$ 33,846
45	21	$2,000	$ 39,209
46	22	$2,000	$ 45,075
47	23	$2,000	$ 51,490
48	24	$2,000	$ 58,508
49	25	$2,000	$ 66,184
50	26	$2,000	$ 74,580
51	27	$2,000	$ 83,764
52	28	$2,000	$ 93,809
53	29	$2,000	$ 104,797
54	30	$2,000	$ 116,815
55	31	$2,000	$ 129,961
56	32	$2,000	$ 144,340
57	33	$2,000	$ 160,068
58	34	$2,000	$ 177,271
59	35	$2,000	$ 196,088
60	36	$2,000	$ 216,670
61	37	$2,000	$ 239,182
62	38	$2,000	$ 263,807
63	39	$2,000	$ 290,741
64	40	$2,000	$ 320,202
65	41	$2,000	$ 352,427

Value at Retirement	$ 352,427
Less Total Contributions	$(62,000)
Net Earnings	$ 290,427

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VISUAL 5
FACTORS THAT AFFECT HOW MUCH SAVING GROWS

- The more **time** you have to save, the more savings you will have at the end of the time period.

- The more **income** you choose to save, the more savings you will have at the end of the time period.

- The higher the **interest rate**, the more savings you will have at the end of the time period.

ACTIVITY 11
IRA INVESTMENTS

My name is Shaundra. I am 25 years old, have a full-time job, and earn a decent salary. I have outlined a saving plan that I think will work for me. I plan to contribute $2,000 this year and for the next nine years, until I am 34, to a tax-free IRA that has been yielding about 9% interest per year. Because I hope to marry, own a home, and stop working to raise several children, I will no longer contribute to the IRA and will leave the money with interest in the fund until I retire at age 65.

- -

My name is Casey. I am 25, have a full-time job, and earn a decent salary. Before I start a saving program, I want to take care of some of the things I need to start life on my own. Much of my income now is used for rent, student loans from college, and a new car loan. I also want to buy some basic furniture for my apartment. My plan is to begin a saving on my 35th birthday, when my income will be considerably higher. I will contribute $2,000 a year to the same IRA as Shaundra until I retire at age 65. That should provide me with a comfortable retirement income.

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ACTIVITY 12
AD RATINGS

THE RATINGS

Please evaluate the presentations on the criteria listed below. Use the following scoring system, and record it in the appropriate box.

Excellent = 10 and Poor = 1

Group Number	1	2	3	4	5
Message was easily understood Clear and concise content					
Appropriate for "target audience"					
Included important information					
Creative; caught and held attention					
Explained some incentives for saving and spending money					
Explained the opportunity cost of saving and spending money					
Explained how time affects the growth of savings					
Explained how the amount of money deposited affects the growth of savings					
Explained how the rate of interest affects the growth of savings					
Total Score					

ACTIVITY 13
GRANDMOTHER'S OFFER

Imagine you are a columnist who gives advice about personal finance to readers of a local newspaper. The following question has been submitted for you to answer. Write your response to the reader in letter form.

My grandmother has offered me $10,000 today toward college if I promise to save the money in a bank. Otherwise, she will give me $12,167 five years from now when I am entering college.

Under what assumptions should I take the $10,000? The $12,167?

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SAVING SELECTION

INTRODUCTION

For many young adults, the opportunity cost of starting a saving program at a time when income is low and retirement is far away seems great. For those who choose to save instead of spend, the number of savings options available to help them prepare for emergencies, future spending, vacations, and retirement can be overwhelming. Important factors to consider when choosing savings alternatives include safety, liquidity, possible return, and risk.

CONCEPTS

Investments
Liquidity
Return
Risk
Saving
Savings
Scarcity
Supply and Demand

OBJECTIVES

- Identify alternative methods of saving
- Use criteria, such as risk, return, and liquidity to evaluate alternative savings options
- Define saving and savings
- Explain that the demand for and supply of loanable funds determines the interest rate

LESSON DESCRIPTION

Using a baseball card (from a previous year) and a passbook savings account or statement, students discover that various savings alternatives have different risks and returns because of the interaction of supply and demand. Using this knowledge, students examine the various savings options in a diversified saving plan. By playing "Financial Bingo," students learn common financial vocabulary. Then through a saving simulation, they learn how supply and demand influence their saving decisions. In the assessment, individual students examine a previous saving choice, and using economics learned in the lesson, they evaluate that decision to decide if they will change it.

TIME REQUIRED

- Two class periods

MATERIALS

A baseball card (from a previous year)
A passbook savings account or statement
Transparency of Visual 6
Copies of a passbook savings account book, certificate of deposit, stock certificate, bond certificate, if available
One copy of Activity 14
Several copies of Activity 15 for each pair of students
One copy of Activity 16 for each student
Two decks of playing cards, each deck divided into suits
One copy of Activities 17 and 18 for each student

PROCEDURE

1. Define saving as the income that is not spent on consumption. People make many choices regarding what to do with their saving. Sometimes people place their saving in accounts where it earns interest. The amount they accumulate in the account over time is called savings. There are many different savings options available. For example, savings accounts, savings bonds, government securities, and certificates of deposit.

2. Explain that people may use their saving to purchase goods that aren't newly produced. These are real assets, such as art, jewelry, or antiques. People keep these collectibles hoping that, over time, their value will increase.

3. Explain that people may decide to purchase financial assets, such as stock certificates, commodity contracts, or shares in mutual funds.

4. Hold up a baseball card from a previous year and a passbook savings account book or statement.

5. Explain that students have a choice to make. If they had $50, would they choose to deposit it in a passbook savings account earning 5% interest a year or purchase a baseball card for their collection?

6. Discuss:

A. What things would you consider in making this choice? (reason for saving, risk, how long you will save, possible return, ease of getting your money)

B. Which is the more risky choice? (baseball card) Why? (the return on the $50 depends on the value of the card in the future)

C. With which choice do you have the opportunity for a greater return in the future? (baseball card) Why? (The rate of return depends on the value of the card in the future. If the card is very valuable in the future, the rate of return on the initial $50 will be high.)

D. What factors will determine the value of a baseball card? (how many cards were printed for a particular player, how successful a particular player was, how many years the card is kept)

E. What factors will determine the value of the passbook savings account? (how long you save the money, how much additional money you add to the account, how much the interest rate changes over time)

F. Why does the passbook savings account involve less risk? (The bank promises to give you back your $50 plus any interest you've earned, and the account is insured.)

7. Explain that liquidity is a measure of how easy it is to turn what has been saved into money that can be spent.

8. Point out that a passbook savings account is more liquid than the baseball card. People can go to the bank and withdraw funds when they want.

9. In order to receive money to spend from the baseball card, you must find someone interested in buying the card at a price you are willing to accept.

10. Explain that few adults understand the many savings options available to help them prepare for emergencies, vacations and other future spending, and retirement security. Understanding risk and return for each alternative helps savers choose the alternatives that best satisfy their wants.

11. Divide the class into pairs, and distribute a copy of Activity 14 to each student.

12. Instruct the pairs to study the vocabulary words and definitions, quizzing one another as needed.

13. Collect Activity 14, and distribute a copy of Activity 15 to each pair.

14. Instruct the pairs to choose any of the vocabulary words listed at the bottom of the page and write the words randomly in the squares of the Financial Bingo board until each square contains a word.

15. Explain that you will read definitions of words. The pairs should determine which vocabulary word is defined, find the word on the card, and mark an "X" in that square.

16. Read definitions until one pair has bingo.

17. Distribute another copy of Activity 15 to each pair, and instruct it to write a vocabulary word in each box.

18. Ask the winning twosome from the previous game to conduct another round of bingo.

19. Continue with additional rounds until all students have mastered the financial vocabulary.

20. Explain that the expected gain on saving, collectibles (real assets), or financial assets depends upon the amount of risk, the level of liquidity, and time.

21. Explain that if an option is very risky, people must be compensated for taking the risk. This compensation is the possibility of greater return. In the case of the baseball card and passbook savings example, if someone chose the savings account, his or her savings is protected and earns a small but certain return. If someone chose the baseball card, there's the possibility of a higher return but there's risk that the card will be worthless in the future.

22. Explain that if an option isn't very liquid, it isn't easy to convert to cash. In order to encourage people to choose less liquid options, those options must provide the possibility of higher returns as compensation for less liquidity.

23. Explain that if an option requires that the saving be held for any period of time the option must pay a higher return as compensation.

24. Display Visual 6. Discuss:

A. Most financial planners suggest that young adults begin a saving program by depositing budgeted saving into an interest-bearing checking account and an insured passbook savings account to create an emergency fund (3-6 months income) from which funds can be withdrawn easily. What characteristics would you want this account to have? (high liquidity, low risk)

B. Once an emergency fund has been established, the saver may wish to increase his or her return by depositing saving in another alternative, such as certificates of deposit or government securities. What are important things to consider about these? (lower liquidity, high minimum deposit, relatively low risk)

C. As income increases, funds could be transferred by an income recipient to a mutual fund or a money market account. What are the characteristics of these? (higher expected return, higher risk, less liquidity)

D. For the more adventuresome, there are other alternatives, such as stocks, real estate, collectibles, and commodities. What are the characteristics of these? (high potential returns, high risk, low liquidity)

25. Point out that Visual 6 rank orders alternatives from those which are low risk and low return to those with high risk and potential high return.

26. Explain that when savers examine the advantages and disadvantages of various options, they can make more informed choices. These choices are personal; they test the differing comfort levels of individuals toward risk.

27. Divide the class into groups of three or four, and distribute a copy of Activity 16 and Activity 17 to each student.

28. Explain that students each have $3,000. They may choose to place income in savings accounts, purchase financial assets, or buy collectibles for a period of ten years.

29. Discuss the various options available in the simulation stressing the risk, liquidity, and return for each.

30. After examining the options, instruct each student to select up to three. Instruct them to place an "X" beside the amount of income saved in each option ($1,000, $2,000, or $3,000).

31. Distribute one suit of cards to each group. Instruct someone in each group to shuffle the cards.

32. Review the directions as follows:

A. Explain that one person in each group will randomly draw a card.

B. After the draw, all students in the group will use the card to determine how much was earned or lost on each of their options during the first year.

C. This is done by using the instructions for each option in Activity 16. Aces are low, kings are high.

D. Students will record their earnings or losses under "Year One" at the bottom of the page.

E. After returning the previously drawn card, groups should reshuffle and continue drawing one card for each year, 2 through 10.

F. All students should continue to record individual returns and losses.

G. At the end of 10 years, students should compute their total returns and compare their results with other students in their group.

33. Allow time for students to play the game.

34. Instruct the groups to discuss the following:

A. Which savers in their group were most successful? (Answers will vary.)

B. What strategies did they use? (Answers will vary.)

C. Did they diversify? (Answers will vary.)

35. Allow time for the groups to share their answers with the class.

CLOSURE

1. Instruct each group to create a list of generalizations drawn from this simulation.

2. Using the list, ask each group to prepare a cartoon that shows what they have learned about risk, return, and liquidity and how this information can help them in making saving choices.

3. Reinforce the concepts of risk, return, and liquidity and their relationship to making choices among saving options.

ASSESSMENT

Distribute a copy of Activity 18 to each student. Tell students to assume they are seniors who have been working part-time for the past two years. They have been saving half of the income they earn for a car or college expenses in a passbook savings account paying 5%, and have saved $3,500.

Explain they should use the knowledge learned in this lesson to develop a telegram to a friend in another state. In the telegram, they should defend the choice of a passbook savings account or compare this choice with another alternative. Remind students that telegrams are concise.

EXTENSION ACTIVITIES

1. Have students survey their parent(s) in order to create a class graph which depicts the kinds of savings options that adults use. Using economic concepts learned in this lesson, ask students to analyze the graph and write a memo to their parent(s).

2. Ask a banker, stock broker, or a financial planner to visit the class to discuss in more detail the various savings options. Topics could include reading the newspaper stock and mutual fund listings and explaining fluctuations in the market.

3. To compare current returns on savings options, have students call local banks for current interest rates on various saving options. Then ask students to calculate the annual return on different financial assets by multiplying the amount originally saved by the interest rate. ($1,000 saved times 5% (.05) equals $50 return)

LESSON SIX

VOCABULARY

Asset is anything a person owns, including property, that has value.

Bond is an IOU issued by a corporation or government with regular interest payments and repayment at a later time.

Broker is a licensed professional who offers investment advice and helps individuals buy and sell stocks, bonds, mutual funds, etc. for a commission.

Certificate of Deposit (CD) is a savings account in which an individual agrees to leave money on deposit for a specific period of time in return for a specific amount of interest. Minimum deposits are required.

Collectibles are objects such as art, jewelry, baseball cards and antiques that are held by people in the hope that their value will increase.

Commodities are raw materials, such as oil, wheat, pork and gold, bought by a saver in a specific quantity for a specific price with the expectation that the price will rise so the commodity. contract can be sold to someone else for a profit.

Dividend is a payment made by a company to a stockholder, usually based on the company's profits.

Earned Interest is a payment received for lending to a financial institution or corporation.

Government Securities are bills (short-term, 0 - 6 months), notes (mid-term, 6 months to 1 year) and bonds (long-term, 1 - 10 years) issued by the government with a guarantee of repayment at a specified interest rate.

Insured Savings (Passbook Savings) are accounts in which the deposit is insured (up to $100,000) by the Federal Deposit Insurance Corporation.

Liquidity is the ease with which a saving option is convertible to cash.

Money Market Account is a savings account which requires a minimum balance and pays a varying rate of interest. Withdrawals may be limited and minimum deposits are required.

Mutual Fund is a savings option that uses cash from a pool of savers to buy a wide range of securities. The fund is managed by professionals and permits small amounts of money to be invested.

Return is the amount of money a saver receives from a saving option, usually expressed as a percentage yield.

Risk is the uncertainty about the future value of an asset.

Saving is current income not spent on consumption.

Savings is the amount accummulated in an account over time.

Savings Bonds are small-denomination bonds that are issued by the federal government at a discounted price and grow to full value over time.

Scarcity is the condition that results from the imbalance between unlimited wants and limited resources.

Securities is another term for stocks and bonds.

Stock is a certificate representing a share of ownership in a company.

VISUAL 6
RISK TO EXPECTED REWARD RELATIONSHIP

Savings Alternatives

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ACTIVITY 14
SAVING BINGO

anything a person owns, including property, that has value (asset)
a certificate representing a share of ownership in a company (stock)
savings account in which money can be deposited easily; is insured by the government up to $100,000 (insured saving)
bills, notes, and bonds issued by the government at a discounted price that mature to full value over time. (government securities)
small denomination bond issued by the government at a discounted price that mature to full value over time (savings bond)
a saving fund that uses income from a pool of savers to buy a wade range of saving options (mutual fund)
a payment made by a company to a stock-holder (dividend)
uncertainty about the future value of an asset (risk)

a licensed professional who offers savings advice and helps people buy and sell stocks, bonds, mutual funds, and other financial assets for a commission (broker)
a savings account in which an individual agrees to leave money on deposit for a specific period of time in return for a specific amount of interest (certificate of deposit)
objects, such as works of art, jewels, antiques, baseball cards which are held by savers in the hope that their value will increase (collectibles)
savings account that requires a minimum balance, pays a varying rate of interest, and limits withdrawals (money market account)
a highly risky saving option in which products such as wheat, cattle, oil, and gold are bought by a saver with the expectation that the price will rise so that the contract can be sold to someone else at a higher price (commodity)
ease with which a saving option is convertible to cash (liquidity)
another term for stocks and bonds (securities)
payment made for the use of someone else's saving (interest)

ACTIVITY 14
(Continued)

the condition that results from the imbalance between unlimited wants and limited resources (scarcity)
an IOU issued by a corporation with regular interest payments and repayment at a later time (corporate bond)

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ACTIVITY 15
FINANCIAL BINGO

Asset	Broker	Stock
Certificate of Deposit	Insured Savings	Government Securities
Collectibles	Money Market Account	Savings Bond
Commodities	Mutual Fund	Liquidity
Dividend	Return	Risk
Securities	Interest	Corporate Bond
Scarcity		

ACTIVITY 16
SAVING CHALLENGE

Savings Account (Insured)
Safety First Bank

Return: $40 per $1,000 saved (4%).
Loss: $0.
Insurance: account insured by government
Liquidity: + + + + +

Choice: $1,000 _____
$2,000 _____
$3,000 _____

Return guaranteed for cards Ace-King

Certificate of Deposit (Insured)
Shelby's Savings and Loan

Return: $60 per $1,000 saved (6%)
Loss: $0
Insurance: account insured by government
Liquidity: + + + (Penalty for early withdrawal)

Choice: $1,000 _____
$2,000 _____
$3,000 _____

Return guaranteed for cards 2-King

U.S. Savings Bond

Return: $70 per $1,000 saved (7%).
Loss: $0.
Insurance: guaranteed by government
Liquidity: + + + (Penalty for early withdrawal)

Choice: $1,000 _____
$2,000 _____
$3,000 _____

Return guaranteed for cards 3-King

Commodities Contract
Wheat

Return: $400 per $1,000 saved.
Loss: $300 per $1,000 saved (30%)
Insurance: none
Liquidity: + + +

Choice: $1,000 _____
$2,000 _____
$3,000 _____

Return only when Queen is drawn

Mutual Fund
(Mix of stocks and bonds)

Return: $80 per $1,000 saved (8%).
Loss: $30 per $1,000 saved (3%).
Insurance: none
Liquidity: + + + +

Choice: $1,000 _____
$2,000 _____
$3,000 _____

Return only when cards 3-Jack are drawn

Municipal Bond
(Sun City)

Return: $80 per $1,000 saved (8%).
Loss: $30 per $1,000 saved (3%).
Insurance: none
Liquidity: + + +

Choice: $1,000 _____
$2,000 _____
$3,000 _____

Return only when cards 5-King are drawn

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ACTIVITY 16 (Continued)

Blue Chip Stock
Pittsburgh Chicken

Return: $100 per $1,000 saved (10%).
Loss: $50 per $1,000 saved (5%).
Insurance: none
Liquidity: + + + + + (Must pay commission)

Choice: $1,000 _____
$2,000 _____
$3,000 _____

Return only when cards 3-Jack are drawn

Mutual Fund
(Mix of stocks and bonds)

Return: $120 per $1,000 saved (12%).
Loss: $70 per $1,000 saved (7%).
Insurance: none
Liquidity: +

Choice: $1,000 _____
$2,000 _____
$3,000 _____

Return only when cards 10-King are drawn

Collectibles
(Painting, sculpture, antiques, baseball cards)

Return: $20 per $1,000 saved (2%).
Loss: $120 per $1,000 saved (12%).
Insurance: none
Liquidity: +

Choice: $1,000 _____
$2,000 _____
$3,000 _____

Return only when cards Queen or King are drawn

Penny Stocks
Shoelace Laundromat Corporation

Return: $40 per $1,000 saved .
Loss: $30 per $1,000 saved (30.
Insurance: none
Liquidity: + + + (Must pay high commission)

Choice: $1,000 _____
$2,000 _____
$3,000 _____

Return only when King is drawn

	Gains		Losses		Return
Year 1	_____	-	_____	=	_____
Year 2	_____	-	_____	=	_____
Year 3	_____	-	_____	=	_____
Year 4	_____	-	_____	=	_____
Year 5	_____	-	_____	=	_____
Year 6	_____	-	_____	=	_____
Year 7	_____	-	_____	=	_____
Year 8	_____	-	_____	=	_____
Year 9	_____	-	_____	=	_____
Year 10	_____	-	_____	=	_____
			Total Return		_____

ACTIVITY 17
SAVING CHALLENGE INSTRUCTIONS

1. Choose how you would like to save your $3,000. Mark your choice(s) with "X"

2. One person in the groups draws a card.

3. All people in the group use the instructions in Activity 16 to see whether their savings option earned or lost money.

4. Earnings and losses for the year are recorded under the appropriate year.

5. The card is placed back in the deck, and the deck is reshuffled.

6. Repeat steps 2 - 5 for a 10 year period.

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ACTIVITY 18
EASTERN ONION TELEGRAM

TO: Finicky Fred, Financial Planner	Date:
FROM:	

LESSON SEVEN

THE URGE TO SPLURGE

INTRODUCTION

Most young adults find credit relatively simple to obtain, very easy to use, and difficult to manage. When credit is used carefully, its benefits are many: it can be used in times of emergency; it is more convenient than cash; and it allows individuals to make major purchases now, such as cars and houses, without having to save the complete purchase price. But the decision to buy goods and services with credit carries an opportunity cost. Using credit means spending future income now.

The borrower gives up future purchases that may be more desirable. Credit does not mean that there is more to spend; it simply lets one enjoy certain benefits now for which payment must be made later. Used wisely, credit is a powerful tool for managing one's money and improving one's lifestyle. When abused, it can consume so much future income that it is an unwise choice to make now.

CONCEPTS

Benefits
Budget
Credit
Finance Charge
Interest
Opportunity Cost
Trade-offs

OBJECTIVES

♦ Demonstrate an understanding of trade-offs when making choices

♦ Use the concepts of trade-offs and opportunity cost to make choices

LESSON DESCRIPTION

Students discuss the benefits and costs of credit and, through data, examine how Americans use credit. To focus on the opportunity cost of using credit, pairs of students are given a budget for a young adult who wants to buy furniture for an apartment. Students are asked to make budget adjustments with future income in order to pay off the debt incurred through the use of credit. In the assessment, students use their knowledge of opportunity costs and trade-offs to make adjustments in another young adult's budget when that person decides to buy a car.

TIME REQUIRED

♦ One to two class periods

MATERIALS

Transparency of Visual 7
One copy of Activity 19 for each student
One copy of Activity 20 for each student

PROCEDURE

1. Hold up several credit cards, and ask students whether credit cards are money or a loan. (loan)

2. Define credit as a loan that enables people to buy something now that they will pay for later.

3. Explain that while retail and bank credit cards are relatively easy to get and use, they are often difficult to manage.

4. Display and discuss Visual 7:

A. Name as many credit cards as you can. (Visa or MasterCard, retail stores, gasoline cards, and so on)

B. Why do you think most Americans have an average of nine cards? (Credit cards are easily available and easy to use.)

C. Why do you think college students are targets for credit card companies? (Credit card companies want to entice consumers early in life; college graduates are likely to earn high wages.)

D. Why do you think it is illegal for high school students to apply for credit cards without their parents cosigning the application? (High school students have little or no income and are high risks.)

E. Do you think that the percentage of people who pay their credit card bill in full each month is high or low? Why? (Low; it is easier to pay a portion of the money owed rather than pay the total amount.)

F. If you knew that the interest charge on credit card accounts was high compared to other loans, would you choose to use credit cards for expensive purchases that take a long time to pay off? (Answers will vary.)

G. What is the opportunity cost of the $35 billion spent in interest by consumers in 1992? (the next best alternative for which individuals could have used the income used to pay interest)

5. Explain that all loans, including credit card loans, are powerful tools. When used carefully, credit helps people manage their finances and improve their lifestyles.

6. Discuss the benefits of credit by citing examples in which credit may be used. For example:

A. Suppose your refrigerator malfunctions and must be replaced, but you do not have enough money to buy a new one. What could you do? (borrow)

B. How do people who don't have much cash buy a new automobile or a home? (borrow)

C. Suppose you are on vacation and you lose your wallet with all your cash in it. What could you do? (borrow)

7. Explain that credit can be used in times of emergency; it is more convenient than cash; and it allows people to buy items, such as cars, homes, major appliances, furniture, and clothing that can be used now.

8. Point out that credit does not change the amount of income available to a household over time, but changes the amount of purchasing power available during a specific time period.

9. Ask students, what the costs of credit are? (reduced spending in the future, interest plus other charges if the balance is not paid in full each month)

10. Define opportunity cost as the highest valued forgone alternative when a choice is made.

11. Explain that the decision to buy goods and services now, with credit, involves an opportunity cost that many young adults find difficult to assess and manage. Credit means using future income now, income that could be used in the future for purposes that may be more desirable.

12. Divide the class into pairs, and distribute a copy of Activity 19 to each student.

13. Explain that this is a budget plan for a young adult. A budget is an organized plan for spending and saving. This budget is based on recommendations of financial planners and non-profit budget and credit agencies, such as the Consumer Credit Counseling Service.

14. Instruct each pair of students to calculate the percentages for each category based on the amount budgeted. Students should write the percentage beside each category.

15. Discuss the percentages in a recommended budget for a single adult. (Saving, 7%; Housing, 31%; Car/truck, 20%; Health, 5%; Clothing, 6%; Food, 16%; Credit Payments, 7%; Fun, 4%; Other, 4%)

16. Explain that Belinda has been carefully monitoring her spending during her first year on her own, and now she wants to buy a couch and a television for her apartment from Lacy's Discount Department Store. The total cost of the furniture is

$1,100. She has gathered information regarding retail store credit cards, bank credit cards, and personal loans and has decided to use a personal loan from CountriBank to pay for the purchase. The terms of the credit agreement require that she pay 12% of the balance each month, including a finance charge of 1.5%. For the first month, Belinda will owe $132, of which $16.50 is the finance charge, the cost for using borrowed money.

17. Ask students to make adjustments to Belinda's budget for next month.

18. When all students have revised Belinda's budget, ask several of them to explain how they altered the budget. Discuss:

A. What adjustments must be made to Belinda's budget for next month? (Answers will vary but must include the addition of $132 to retail cards under "credit payments.")

B. How does this affect Belinda's ability to purchase goods and services next month? (She has to use some of next month's income to pay for a purchase she made this month. She gives up the purchases she would have made next month with the $132.)

19. Reinforce the concept of opportunity cost by reminding students that when people purchase with credit, they must use future income to pay the debt. The opportunity cost is the purchase they might have made with future income that may have been more desirable.

CLOSURE

Tell students that they need to ask the following questions when making choices to use credit:

1. Do I really want this item, or can I wait?

2. What is the extra cost of the item if I use credit? Are the benefits of having the item now greater than the costs?

3. Can I afford the monthly payments?

4. What will I have to give up to pay for it?

ASSESSMENT

Distribute a copy of Activity 20 to each student. Explain that Dylan earns an annual salary of $16,000. His old car is no longer worth repairing, and he has to replace it. After visiting a number of car dealers, he has chosen to buy a car with a bank loan which requires a fixed payment of $249 a month for three years. Ask students to make adjustments to Dylan's budget to reflect the car payment, starting with next month's income. On the back of the Budget Plan, ask each student to indicate the opportunity cost of Dylan's choice to buy a car with credit. (Answers: Budgets will vary depending upon where individual students think they can make adjustments. All students should show $249 under **Car/Truck Payment.** Total expenditures may not exceed Dylan's net income of $1,211 for the month.)

EXTENSION ACTIVITY

1. Ask someone from the Consumer Credit Counseling Service to share case studies of people who got into trouble by spending in excess of their income. Have them reinforce the power of opportunity cost when making credit choices.

2. Ask someone from the Consumer Credit Counseling Service or a banker to discuss how young adults can establish a credit history (an important accomplishment because it determines a person's ability to obtain future credit), how they can maintain a good credit rating, and how credit history is gathered and distributed to lenders. Have speakers reinforce the power of opportunity cost when making credit choices.

VOCABULARY

Benefit is an advantage of an alternative or option.
Budget is an organized plan of spending and saving.
Credit is a loan that enables people to buy something now and to pay for it in the future.

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LESSON SEVEN

Finance Charge is the cost of consumer credit expressed in dollars. Includes interest, transaction fees, and service fees.

Interest Rate is the price paid for use of someone else's savings expressed as annual percentage rate.

Opportunity Cost is the best alternative that is given up when a choice is made.

Trade-offs involve choosing less of one thing to get more of something else.

VISUAL 7
CREDIT CLIPS

•110 million Americans hold over one billion credit cards. More than 40% of American teenagers use their parents' credit cards; 11% have their own.

•The typical card holder has at least NINE different credit cards from banks and other card issuers.

•In 1992, Americans spent $303.4 billion on credit card charges.

•Thirty percent of Americans who use credit cards pay their balance in full each month.

•The average total card balance for individuals during 1992 was $2,400.

•In 1992, consumers paid nearly $35 billion in credit card interest.

Source: American Express Company, New York, NY.

Name _____

ACTIVITY 19
BUDGET PLAN

Belinda
Gross Income: $20,000/year - Net Income: $1,495/month

Item	This Month	Next Month	Item	This Month	Next Month
Saving	____%		**Food**	____%	
Amount	$105	____			
			Groceries	$ 150	____
Housing	____%		Eating Out	79	____
			School Lunches	0	____
Rent or Mortgage	$ 375	____	Paper Goods	4	____
Electricity	41	____	Cleaning Products	6	____
Heat (Gas, Oil)	0	____			
Water & Sewer	0	____	Amount	$239	____
Garbage	0	____			
Telephone	42	____	**Credit Payments**	____%	
Property Insurance	5	____			
Maintenance & Repair	0	____	Bank Cards	$70	____
Property Tax	0	____	Retail Cards	35	____
			School Loans	0	____
Amount	$463	____	Personal Loans	0	____
			Bank Loans	0	____
Car/Truck	20%				
			Amount	$ 105	____
Payment	$125	____			
Gas	31	____	**Fun**	____%	
Maintenance	10	____			
Repairs	32	____	Vacations	$ 6	____
License Tabs	2	____	Cable TV	25	____
Insurance	100	____	CDs/Tapes	9	____
			Movies	6	____
Amount	$300	____	Newspaper/Magazine	0	____
			Hobbies	10	____
Health	____%		Videos	4	____
Doctor	$ 5	____	Amount	$60	____
Dentist	4	____			
Insurance	60	____	**Other**	____%	
Prescriptions	6	____			
Glasses	0	____	Pocket Money	$32	____
			Child Care	0	____
Amount	$75	____	Pets	0	____
			Gifts	13	____
Clothing	____%		Personal Care	15	____
Clothes	$ 73	____	Amount	$60	____
Shoes	6	____			
Underwear	3	____			
Cleaning & Repair	8	____			
Amount	$ 90	____	Amounts are rounded		

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Name _____

ACTIVITY 20
BUDGET PLAN

Dylan
Gross Income: $16,000/year - Net Income: $1,211/month

Item	This Month	Next Month	Item	This Month	Next Month
Saving	7%		**Food**	16%	
Amount	$ 85	____	Groceries	$ 100	____
Housing	31%		Eating Out	87	____
			School Lunches	0	____
Rent or Mortgage	$285	____	Paper Goods	2	____
Electricity	27	____	Cleaning Products	5	____
Heat (Gas, Oil)	36	____			
Water & Sewer	0	____	Amount	$194	____
Garbage	0	____			
Telephone	22	____	**Credit Payments**	7%	
Property Insurance	5	____			
Maintenance & Repair	0	____	Bank Cards	$50	____
Property Tax	0	____	Retail Cards	35	____
Amount	$375	____	School Loans	0	____
			Personal Loans	0	____
Car/Truck	20%		Bank Loans	0	____
Payment	$ 95	____	Amount	$ 85	____
Gas	22	____			
Maintenance	12	____	**Fun**	4%	
Repairs	10	____			
License Tabs	3	____	Vacations	$ 0	____
Insurance	100	____	Cable TV	27	____
Amount	$242	____	CDs/Tapes	8	____
			Movies	5	____
Health	5%		Newspaper/Magazine	6	____
			Hobbies	0	____
			Videos	2	____
Doctor	$ 4	____			
Dentist	3	____	Amount	$48	____
Insurance	50	____			
Prescriptions	4	____	**Other**	4%	
Glasses	0	____			
Amount	$61	____	Pocket Money	$23	____
			Child Care	0	____
Clothing	6%		Pets	10	____
			Gifts	7	____
Clothes	$ 67	____	Personal Care	8	____
Shoes	2	____			
Underwear	3	____	Amount	$48	____
Cleaning & Repair	1	____			
			Amounts are rounded		
Amount	$ 73	____			

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THE CREDIT CONNECTION

INTRODUCTION

It's easy to buy clothing, a stereo, furniture, or a used car with borrowed money and pay for it slowly over time. Reality sets in when buyers discover that the amount they actually paid for the item is much greater than the purchase price. This is because all credit is a loan of some kind. For the privilege of borrowing, lenders typically charge borrowers interest and other fees. Understanding that interest rates are determined through the interaction of supply and demand and how to use Annual Percentage Rate (APR) to shop for credit helps young adults decide when and from whom to borrow.

CONCEPTS

Annual Percentage Rate (APR)
Credit
Finance Charge
Interest
Monetary Policy
Supply and Demand

OBJECTIVES

♦ Recognize that interest is an incentive to lenders to forgo spending their income at the present time

♦ Explain that interest rates are determined in the market by supply and demand

♦ Use the concept of interest rates and the cost of credit to explain Annual Percentage Rates (APR)

♦ Use APR and knowledge learned in this lesson when making borrowing decisions

LESSON DESCRIPTION

Students discuss the definitions of credit and interest and examine the price of a $2,000 loan. Through interviews with classmates about their willingness to lend or borrow money at various interest rates, students learn that interest rates are determined by the interaction of supply and demand. Using information from credit card solicitations, students learn how to use Annual Percentage Rate (APR) to decide from whom to borrow. In the assessment, students assume the role of a high school newspaper columnist and use the economic knowledge learned in the lesson to answer a question about credit from a reader.

TIME REQUIRED

♦ Two to three class periods

MATERIALS

Transparencies of Visuals 8 and 9

One copy of Activities 21 and 22 for each student

One piece of graph paper for each pair of students

Credit card applications collected from several sources

One copy of Activity 23 for each student

PROCEDURE

1. Explain that while credit is relatively easy to obtain and convenient to use, the use of borrowed money is not free. All loans must be repaid later. When credit card loans are used, if the entire balance is not paid in full one month after the loan, the borrower will be charged interest and other fees.

2. Define credit as a loan that enables people to buy something now and pay for it later.

3. Define interest as the price for using someone else's savings. Interest rate is interest expressed as a percentage.

4. Explain that with credit the actual price of a purchase is more than the retail price because lenders charge interest.

5. As an example, ask students to project how long it would take to pay off a $2,000 purchase on a credit card with an Annual Percentage Rate (APR) of 18.5% (typical of most credit cards) if the borrower chose to pay only the minimum balance of 3% required each month.

6. Display Visual 8. Explain that it would take about 14 years, and the total interest charged would almost equal the original price of $2,000. Most of the minimum payment goes toward paying the interest rather than the principal in the early months of a loan. (NOTE: The interest and principal added together equal the 3% minimum payment. For example, the first month's minimum payments, 3% x $2,000 = $60, includes $29.17 for principal and $30.83 for interest.)

7. Explain that the interest rates for different types of credit vary. When making purchasing and credit decisions, people should compare interest rates from different lenders.

8. Discuss the variety of places from which credit can be obtained. (banks, credit card companies, finance companies, credit unions, automobile companies)

9. Point out that interest rates vary at each institution. Interest rates reflect the credit history of borrowers. High-risk borrowers will pay higher interest rates.

10. Explain that in this lesson, students learn how interest rates are determined and how to use Annual Percentage Rates (APR) to make good credit choices.

11. Divide the class into pairs. Distribute a copy of Activity 21 to one student in each pair, and a copy of Activity 22 to the other.

12. Explain that one student is a borrower and the other is a lender. This simulation provides information regarding borrower and lender behavior.

13. Ask students in each pair to interview one another as instructed on the activity sheet. Explain they should determine ALL of the interest rates at which a borrower is willing to borrow $100 and ALL of the interest rates at which a lender is willing to lend $100. For example, if a lender is willing to lend at 11%, he or she would also be willing to lend at 13%, 15%, and 17%. A borrower who is willing to borrow at 9% interest is also willing to borrow at 7%, 5%, and so on.

14. As they interview their partner, they should place a check next to the appropriate interest rates for the borrower and lender.

15. Display Visual 9. Remind students that the interest rate is a price.

16. Ask the borrowers to raise their hands in response to the following question: How many of you were willing to borrow $100 at 15%?

17. Multiply the number of borrowers who raise their hands by $100 and record this dollar value next to 15% under "Quantity Demanded."

18. Repeat steps 16 and 17 for each interest rate listed.

19. Next, ask the lenders to raise their hands in response to the following question. How many of you were willing to lend $100 at 15% interest?

20. Multiply the number of borrowers who raise their hands by $100 and record this dollar value next to 15% under "Quantity Supplied."

21. Repeat steps 19 and 20 for each interest rate listed.

22. Discuss:

A. The demand for loanable funds is the amount of funds people are willing and able to borrow at various interest rates. Point out that the "Interest Rate" and "Quantity Demanded" columns give us the demand for loanable funds.

B. The supply of loanable funds is the amount of funds people are willing to lend at various interest rates. Point out that the "Interest Rate" and "Quantity Supplied" columns give us the supply of loanable funds.

C. Are people willing and able to borrow more or less at higher interest rates? (less)

D. Are people willing to lend more or less at higher interest rates? (more)

23. Distribute graph paper to each pair of students. Instruct partners to draw a graph of the demand and supply schedules using the data on Visual 9.

24. Explain that they should begin by labeling the x-axis (horizontal) as "quantity of loanable funds" and the y-axis (vertical) as "interest rate." Remind students that the interest rate is the price paid for obtaining credit and the price received for giving credit.

25. Instruct students to plot the data and connect the points to show the demand/supply curves. Label the demand curve "D" and the supply curve "S."

Sample Demand/Supply Schedule

Quantity Demanded	Interest Rate (%)	Quantity Supplied
0	25	1500
0	23	1500
0	21	1500
0	19	1500
200	17	1500
400	15	1500
1200	13	1200
1200	11	800
1400	9	500
1500	7	200
1500	5	0
1500	3	0
1500	1	0

26. Discuss the following questions.

A. What generalizations can you make about the relationship between interest rate and the quantity of loanable funds available? (Lenders are willing to lend more at higher interest rates than at lower interest rates.)

B. What generalizations can you make about the relationship between interest and the quantity of loanable funds demanded? (Borrowers are willing to borrow more at lower interest rates than at higher interest rates.)

C. At what interest rate does the quantity demanded equal the quantity supplied? (that interest rate at which the demand and supply curves intersect)

27. Explain that the interest rate/price at which quantity demanded equals quantity supplied is called the equilibrium or market price. Instruct students to label the equilibrium price on the graph "EP."

28. Using the graph and the following examples, demonstrate what might happen to equilibrium interest rate/price if demand or supply changed.

A. If automobile manufacturers offered large rebates on new cars, the demand for loanable funds would increase. The demand would shift to the right. Draw a new demand curve to the right of the original and label it "D2." This would result in a new equilibrium at the point where "D2" intersects the supply curve. At this new equilibrium, the price (interest rate) has risen.

B. If the Federal government announces that in the future social security benefits will be drastically reduced, individuals will have to finance more of their retirement. The supply would shift to the right. Draw a new supply curve to the right of the original and label it "S2." This would result in a new equilibrium at the point where "S2" intersects the demand curve. At this new

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equilibrium the price (interest rate) has fallen.

29. Emphasize that the equilibrium interest rate is not static; it changes as supply and demand change.

30. Ask students why financial institutions charge borrowers a higher interest rate than they pay savers. (Institutions that lend money do so because they earn profit on loans; if interest paid to savers were the same or higher than interest charged borrowers, the institutions would not earn a profit.)

31. Ask the class how interest rates affect saving decisions. (Interest rates act as incentives for savers; high interest rates encourage saving while low interest rates discourage saving.)

32. Ask students how interest rates affect borrowing decisions. (Interest rates act as incentives for borrowers; high interest rates discourage borrowing while low interest rates encourage it.)

33. Point out that payment of interest is only one cost of using credit. There are others.

34. Divide the class into groups of 3 or 4 students, and distribute several sample loan or credit card applications.

35. Instruct students to list all of the information that pertains to the cost and conditions of receiving the loan or using the credit card. Explain they should list any terms with which they are unfamiliar.

36. Allow time for each group to list the requirements and costs on the board so that comparisons can be made.

37. Discuss the various requirements and costs. Use the vocabulary list found at the end of this lesson to discuss any terms that were unfamiliar to students.

38. Point out that the Truth in Lending Act requires all lenders to disclose interest as well as other costs/charges to the borrower.

39. Explain that the actual measure of the cost of credit is called the Annual Percentage Rate (APR).

40. Explain that the APR figure is a yearly percentage rate that can be used by borrowers to compare rates from different lenders. This information can help credit consumers make decisions.

41. Instruct groups to locate the APR on their applications and circle it. Explain that if this information is not already listed on the board, they should list it now.

42. Ask students, based on the APR and other information, which credit card/loan they should choose. Allow time for students to share their choices.

CLOSURE

1. Review how supply and demand determine interest rates and how changes in supply and demand affect savers' and borrowers' choices.

2. Bring in newspaper charts and tables listing interest rates on car loans, home loans, and savings products.

3. Discuss how changes in supply and demand will change the equilibrium rate of interest for these purchases or savings accounts.

ASSESSMENT

Explain that each student will act as a columnist for a school newspaper. The column is called the "Consumer Connection." Fellow students submit questions asking for consumer advice. Distribute a copy of Activity 23 to each student, and explain that this is the most recent question they have been asked to answer. Instruct each student to answer the question in letter form for publication. (Answer: Music Man should obtain a personal loan from the

Biddle Bank. It has the lower APR (14%) and an affordable monthly payment. Now is a good time to borrow; interest rates are not expected to fall.)

EXTENSION ACTIVITIES

Bring in a credit card statement for students to examine. Point out the APR and the price charged if the payment were not made in full.

VOCABULARY

Annual Fee is a flat, yearly charge for owning a credit card.

Annual Percentage Rate (APR) is a measure of the cost of credit on a yearly basis expressed as a percentage rate, including interest, transaction fees, and service fees.

Average Daily Balance is the most common method of calculating interest. The lender adds up the amount owed for each day of the billing cycle and divides that number by the number of days in the billing cycle.

Balance is the amount owed to the lender, including purchases, fees, interest, and transaction charges.

Cosigner is a person who agrees to pay a loan if the borrower fails to do so.

Cash Advance is the use of a credit card at a bank or automatic teller machine to get a cash loan. The interest rate for a cash advance may be higher than for purchases and starts the day of the withdrawal; there can also be a handling fee in addition to interest charges.

Credit is a loan that enables you to buy something now that you will have to pay for later.

Credit Limit is the maximum amount you may charge on a credit card. Many lenders may let you spend more but may charge you a fee for doing so.

Demand is the relationship between the quantity of a resource, good, or service that consumers are willing and able to buy at various possible prices during a specific time period.

Finance Charge is the dollar amount paid to use credit. It includes interest, transaction fees, and service fees.

Grace Period is the time, usually about 25 days, in which you can pay your credit card bill without paying a finance charge.

Interest is the price paid for obtaining credit.

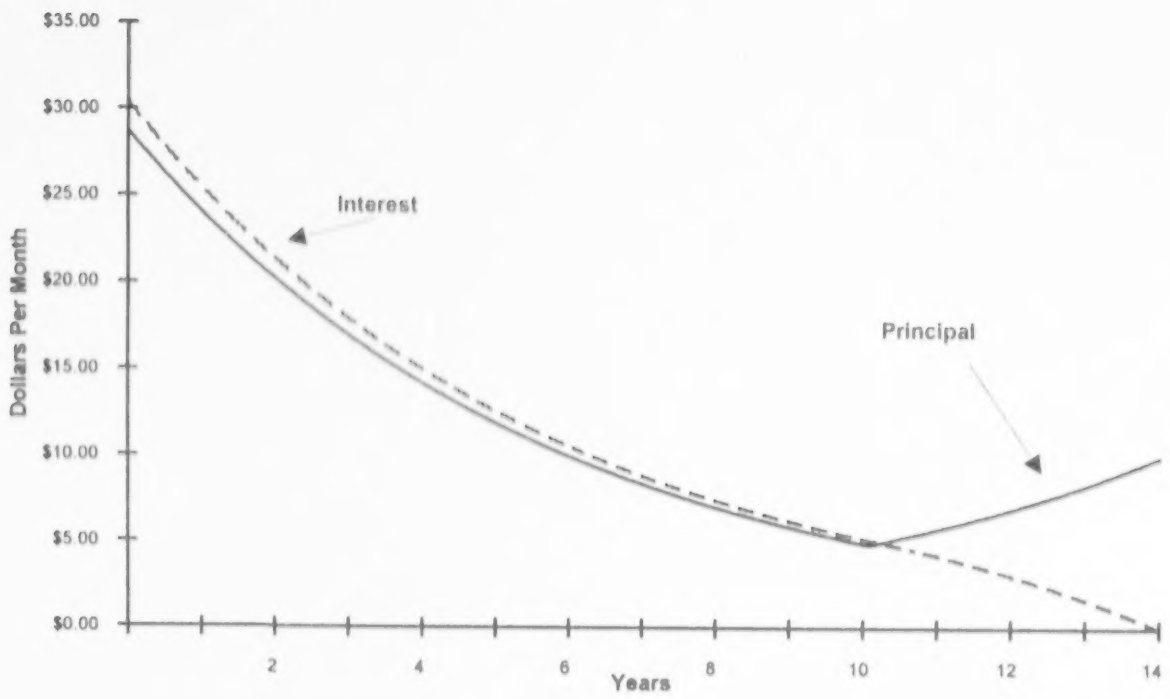
Minimum Payment is the smallest amount you are required to pay the lender each month.

Supply is the relationship between the quantity of a resource, good, or service that lenders are willing to produce and sell at various possible prices during a specific time period.

VISUAL 8
LOAN PAYMENTS: INTEREST VS. PRINCIPAL

$2000 Loan Repayment Interest vs. Principal

Minimum Payment = 3% 18.5% APR



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VISUAL 9
SUPPLY AND DEMAND FOR $100 LOAN

Borrowers		Lenders
Quantity Demanded	**Interest Rate (%)**	**Quantity Supplied**
	3	
	5	
	7	
	9	
	11	
	13	
	15	
	17	
	19	
	21	
	23	
	25	

ACTIVITY 21
BORROWER

You have discovered that the pair of $120 tennis shoes you want to buy is on sale for $100, but in order to buy them you will have to borrow $100. Unfortunately, the local bank that charges 11% per year for personal loans does not lend to persons under age 18. Likewise, credit cards which charge 18% per year are not available for your use either. Fortunately, a friend says he or she will lend you the money from a savings account if you will pay back the loan with interest at the end of the year. Interview your friend to determine ALL the interest rates at which he or she is willing to lend you the money. On the chart below, mark a " ✓ " beside those rates. Do not negotiate an interest rate.

_____ 25%	_____ 17%	_____ 9%
_____ 23%	_____ 15%	_____ 7%
_____ 21%	_____ 13%	_____ 5%
_____ 19%	_____ 11%	_____ 3%

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ACTIVITY 22
LENDER

You have agreed to lend a friend $100 so he or she can buy a pair of tennis shoes that are on sale. Since the money will be withdrawn from your savings account, which presently pays you 5% interest per year, your friend has agreed to pay back the loan at the end of the year with interest. Personal loans from local banks are averaging about 11% per year, and credit cards charge about 18% per year. Unfortunately for your friend, both loans are available only to persons who are age 18 or older. Since the level of economic activity has been growing in recent months, interest rates on savings have been slowly rising. Interview your friend to determine ALL the interest rates at which he or she is willing to borrow the money. Record the answers below by placing a " ✓ " beside the acceptable interest rate(s). Do not negotiate an interest rate.

_____ 1%	_____ 9%	_____ 17%
_____ 3%	_____ 11%	_____ 19%
_____ 5%	_____ 13%	_____ 21%
_____ 7%	_____ 15%	_____ 23%

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ACTIVITY 23 ASSESSMENT

Dear "CC",

I've had my eye on a stereo system with a tape, CD player, and powerful speakers — everything I have always wanted. It is on sale for $800, and I have decided to buy it on credit (my parents will cosign). I can make a $100 down payment from my savings and can afford to spend $100 a month on the loan. The following four credit options are available to me.

1. Lacy's Department Store charges 13% APR with a minimum payment of 25% ($140 the first month) until the balance is paid off.

2. The Recover Card charges an APR of 18% and requires a minimum payment of 3% ($21 the first month) until the balance is paid off.

3. Biddle Bank offers a personal loan with an APR of 14% a year for a fixed monthly payment of $88.73 for 9 months.

4. The American Bold Card charges an APR of 17% with a minimum payment of 5% ($35 the first month) until the balance is paid off.

In my economics class, I learned that the demand for credit has been increasing during the past year, and most people expect interest rates to rise slightly and then stabilize. Please help me decide which of the above loans will enable me to pay off the loan in a reasonable time with a low cost and whether now is a good time to borrow.

Sincerely,

Mad About Music

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EXPECT THE UNEXPECTED

INTRODUCTION

Americans spend an average of 11% of their gross income on insurance to protect against unexpected losses, yet insurance is one of the least understood purchases we make. Many people buy too little insurance; others buy too much. A teen's first experience with insurance comes with his or her first fender bender. As teens become young adults, they accumulate more wealth and have more assets to protect. Insurance companies offer consumers a vast and complicated assortment of products which reduce the risk of financial loss by spreading it among large numbers of people. Managing risk, which includes the use of insurance, is an important component of successful money management. Without it, the financial costs of an accident could be catastrophic.

CONCEPTS

Asset
Incentives
Insurance
Opportunity Cost
Risk
Risk Management

OBJECTIVES

- Explain how insurance companies provide risk management services to people
- Identify the benefits and costs of common types of insurance
- Identify the potential consequences of insufficient insurance
- Identify the opportunity cost of decisions
- Use benefit/cost analysis to make choices

LESSON DESCRIPTION

Students learn how the purchase of insurance reduces the risk of financial disaster. They are introduced to common types of insurance and prioritize their insurance choices. As a homework assignment, they complete a crossword puzzle to reinforce insurance vocabulary. Then, through a simulation, students buy insurance and roll dice to see how well they have done. In the assessment, individual students examine the benefits and costs of incentives offered by insurance companies to teen-aged drivers and choose those that provide the greatest net benefits.

TIME REQUIRED

- Two classes

MATERIALS

Set of car keys
Play money, $1,200 per student
Transparency of Visual 10
Three different colors of dot stickers, twelve of each color for each student
16 sheets of 8 ½" x 11" paper, each labeled with a different item from Activity 24
One copy of Activities 24, 25, 26, and 27 for each student
One pair of dice per group

PROCEDURE

1. Hold up a set of car keys, and ask students to tell you what one of the largest costs of owning a car is. (insurance) Ask individual students to share the approximate cost of their car insurance and the names of their insurance companies.

2. Ask students to list all the unexpected things that could happen to a car for which there could be a considerable financial loss. (collision with another car, fire, theft, collision with an object, tree falls on car, flooded highway, fire, water or wind damage, vandalism, injury to driver or passenger, injury to a person outside the car) As students respond, write answers on the board.

3. Explain that most people manage the risk of unexpected events by purchasing insurance. Risk is uncertainty about the future value of an asset.

4. Define insurance as protection purchased from a company that will compensate you for

personal or financial loss caused by unexpected events.

5. Demonstrate how insurance companies act as professional risk managers to help individuals manage personal and financial losses, using the following simulation:

A. Distribute $1,200 in play money to each student.

B. Have students assume the class decides to form a club that will provide protection for those who own and drive automobiles. Everyone in the class joins the club for a year, paying dues of $100 per month per person. The total amount collected each month is $100 x the number of students in the class.

C. Collect $600 from each student to represent dues for the first six months. Place the money in a pile at the front of the class so everyone can see it.

D. Choose one of the students in the class to use as an example. Tell the class that in the third month of membership, this student had an accident. He hit his neighbor's new Lexus.

E. The club paid $3,000 to the owner of the Lexus for the necessary repairs. The club also paid $750 to the student for repairs to his Chevy Cavalier. This student was the first club member to have an accident and the total cost to the club was $3,750.

F. In the fifth month, the same student was involved in another accident. This time he backed into a telephone pole in front of a movie theater. The cost to repair the car was $1,100.

G. Collect another $600 from each student to represent the dues for the second six months of the year.

H. During the rest of the year, four other club members had accidents which cost the club $16,500. Remove $16,500 from the pile. The operating expenses of the club for the entire year were $1000 for collecting premiums (membership fees), providing contracts to members and processing payments (claims) to members. Remove $1,000 from the pile.

I. With a total dollar cost of $22,350 for the year, discuss the following:

1. In the club, who pays for the accidents and lawsuits of our poor drivers? (good drivers) How could this affect the price of dues for next year? (Dues are likely to rise for all drivers.)

2. How much dues should be charged for next year? (Answers will vary.) Who should be allowed to remain in the club? (Discuss possible solutions: may want to kick the student with the two costly accidents out of the club or may wish to charge him or her higher dues, may also choose to reduce the dues of those drivers who had no accidents)

6. Explain that the above simulation basically explains how insurance works. People pool their insurance payments (premiums) to form a reserve. This reserve compensates those people who suffer losses. Essentially, insured people without losses pay for people who have losses.

7. Discuss the risk involved in insuring large numbers of people. Point out that in recent years a number of insurance companies have gone out of business because of the high costs of covering losses caused by earthquakes, hurricanes, and floods.

8. Explain that because insurance companies are risk managers, they offer incentives to people to reduce the risk of losses. They may develop co-payments or deductibles to make people more responsible for their actions. Have students cite similar incentives in their automobile insurance

contracts. (non smoker, good grades, driver's education)

9. Explain that a teen's first experience with insurance comes with a driver's license because most states require teenagers to carry automobile insurance. As they graduate from high school or college, they will have more responsibilities and more assets to protect with insurance. Ask the following:

A. How would you replace your television and other property if it were stolen from your apartment? (renter's insurance)

B. When you have a family, what would you do if you became sick or injured and you could not work for several months? (health and disability insurance)

C. When you have a family, how will they be cared for if you should die? (life insurance)

10. Emphasize the benefits of insuring assets as a means of money management and the possible financial consequences if the decision is made not to purchase insurance.

11. Show Visual 10 and ask students to list benefits of purchasing the most common types of insurance:

Automobile: Protection against financial losses resulting from collision; theft; vandalism; fire; acts of nature; or injury to the driver, passengers, or others

Disability: Protection against the loss of income resulting from a disabling injury or illness

Property: Protection against financial losses resulting from damage to or destruction of property or possessions (renters' insurance or homeowners' insurance)

Health: Protection against the costs of care because of illness, injury, or disability

Life: Protection against financial losses resulting from death

Liability: Protection against financial losses resulting from lawsuits. Point out that liability coverage is usually written within another type of insurance protection, such as automobile or property insurance (homeowners/ renters).

12. Explain that the amount of insurance individuals buy depends upon the expected benefit and the cost of the insurance. This method of weighing benefits with costs is called **benefit/cost analysis.**

13. Post 8½" x 11" sheets of paper, each labeled with a different item from Activity 24, around the room.

14. Distribute a copy of Activity 24 to each student.

15. Explain that students will weigh the benefits and costs of buying insurance for various purposes. Remind students that income not spent on insurance can be saved or spent on something else.

16. Distribute three sets of colored dots (twelve of each color) to each student. Explain the students will use the dots to identify the types of protection they think have the greatest benefit relative to cost; some benefit relative to cost; and the least benefit relative to cost. Determine which color will be used to represent each case.

17. Instruct students to move around the room and apply colored dots to the pages posted to illustrate what they think.

18. Instruct students to return to their seats as they complete the assignment. When everyone is seated, discuss:

A. What kinds of insurance did most people think provided the greatest benefit relative to its cost? Why? (Answers will vary.)

B. What kinds of insurance did most people think provided the least benefit relative to its cost? Why? (Answers will vary.)

C. Why do many states require automobile insurance? (Often individuals do not have the assets to pay for injuries or automobile damage.)

D. Medical and disability insurance premiums are often partially paid by employers. Why? (These benefits are offered as part of worker compensation. Also, medical benefits help employees maintain their health so that they lose fewer days to illness.)

E. Why do most single adults choose not to buy life insurance? (Because they have no dependents to protect against the loss of future income, the costs of life insurance outweigh the benefits.)

19. Remind students that the personal decision to purchase insurance depends upon individual comfort, but the general guideline is not to let a large potential loss go uninsured just to save a few dollars nor to risk more than you can afford to lose by neglecting to purchase insurance.

20. Explain that insurance has its own vocabulary. Distribute a copy of Activity 25, and instruct students to complete the assignment as homework. Emphasize the importance of learning the terms.

21. Divide the class into small groups. Explain they will play "The Big Risk."

22. Distribute a copy of Activity 26 to each student. Explain that they have just graduated from high school.

23. Select five students who will not insure any of their material goods or income; the rest of the class has budgeted $2,600 for insurance.

24. After students have examined the possible risks and dollar costs of insuring various things listed in Activity 26, those students who have budgeted money for insurance should weigh the benefits and costs of the various insurance coverages and circle their choices. They may not spend more than $2,600 and may choose to spend less.

25. Demonstrate how to play the game as follows:

A. Instruct students to locate the "example" on Activity 26.

B. Point out the annual premium for automobile ($1,200) and disability ($600) insurance.

C. Ask a student to roll the dice. Total the numbers on the dice. This number represents the item(s) on the activity sheet that is affected by unexpected events during that particular year.

D. Explain that if the item is protected by insurance, the student will pay the deductible or co-payment, if applicable. These calculations should be recorded in the "Losses Due to Unexpected Events When Insured" column. In the example, if the number on the dice totaled 5 or more, the student would pay automobile insurance deductible.

E. If the item was not insured, students will incur the loss indicated under the item. Losses should be recorded in the "Losses Due to Unexpected Events When Uninsured." In the example, if the number on the dice totaled 2 or more, the student would incur a loss of $1,200.

26. Explain that when they play the game they will not be able to insure all items. The roll of the dice will determine which items will be affected. Uninsured students will experience losses in all categories affected by the roll of the dice.

27. The simulation represents five years. At the end of the five years, students should calculate the total amount spent for the five-year period.

28. Divide the class into groups. Make sure that one of the uninsured students from the activity is in each group.

29. Instruct members of each group to discuss their experiences in playing the game. The students who had insurance should compare their five-year results with the uninsured students. The groups should consider once again the benefits and costs of insuring the various items. Then they should make some generalizations about using insurance for risk management.

CLOSURE

1. Explain that buying the right insurance at the lowest cost is not easy. Rates vary depending upon where you live, previous losses, your age, your marital status, and, for certain types of insurance, your health, the hazards of your occupation, or your driving record.

2. Explain that insurance can be purchased from a number of sources. This means that people can shop for the lowest cost and best service. Insurance needs change throughout a person's lifetime with the addition of dependents, accumulation of more personal property, and so on. These changes affect the benefits and costs of insurance.

3. As a homework assignment, ask students to write a paragraph describing how benefit/cost analysis can help them make better decisions about insurance.

ASSESSMENT

Distribute a copy of Activity 27 to each student. Instruct students to consider the benefits and costs of discounts offered by automobile insurance companies and choose those that yield the greatest net benefits. Answers will vary depending upon the student's driving record, type of car, present grades, completion of driver's training, and whether the student is paying for all, part, or none of the insurance.

EXTENSION ACTIVITIES

1. Have students complete a benefit/cost analysis of deductibles listed in an automobile insurance policy.

2. In class, when students formed an automobile protection club, they learned how safe drivers bear the costs of other people's accidents. Have students research the effect of accidents on the costs of insuring people and how that affects the supply and price of insurance.

3. Have students call local insurance agents to check out insurance requirements for your state. Assign students specific aspects of insurance to research: rates, benefits, covered by self or employers, etc. Assess how these requirements influence the net benefits of owning insurance.

VOCABULARY

Asset anything a person owns, including property, that has value.

Automobile Insurance is protection against financial losses resulting from collision, theft, vandalism, fire, acts of nature, or injury to the driver, passengers or others.

Benefit is payment made by an insurance company.

Beneficiary is a person who receives an insurance payment.

Claim is a statement requesting payment of an insured's loss.

Deductible is a clause in an insurance policy which states that a portion of a loss is to be paid by the insured.

Health Insurance is protection against the expenses incurred due to illness, injury, or disability.

Homeowner's Insurance is property insurance that protects against the loss of a dwelling and its contents due to fire, theft, or acts of nature.

Incentive is a reward or penalty for engaging in more or less of a particular behavior.

Insurance is protection that you buy from a company that compensates you for personal or financial loss due to unexpected events.

LESSON NINE

Insurance Agent is an insurance salesperson.
Insurance Rate is the cost of insurance, adjusted for age, sex, past history, location of residence, type of occupation.
Liability Insurance is protection against financial losses from lawsuits.
Life Insurance is protection against financial losses resulting from death.
Opportunity Cost is the next best alternative that is given up when a choice is made.
Policy is a written insurance contract.
Premium is the amount paid for insurance protection.
Property Insurance is protection against financial losses resulting from damage to property or possessions.
Renter's Insurance is property insurance for protection against the loss of contents in a rented dwelling due to fire, theft, and acts of nature.
Risk is uncertainty about the future value of an asset.

VISUAL 10
TYPES OF INSURANCE

INSURANCE	BENEFITS
Automobile	
Disability	
Property	
Health	
Life	
Liability	

90

ACTIVITY 24
TO INSURE OR NOT TO INSURE

INSURE EXPENSIVE WATCH $45.00/YEAR	INSURE CAR $400/YEAR
LIFE INSURANCE $300/YEAR	RENTERS INSURANCE $50/YEAR
PERSONAL LIABILITY INSURANCE $300/YEAR	INSURE FUR COAT $150/YEAR

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ACTIVITY 24 (Continued)

FIRE INSURANCE $50/YEAR	LIFE INSURANCE FOR A CHILD $120/YEAR
DISABILITY INSURANCE $100/YEAR	SNOWMOBILE INSURANCE $200/YEAR
BOAT INSURANCE $250/YEAR	FLOOD INSURANCE $150/YEAR

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ACTIVITY 24 (Continued)

INSURE STAMP COLLECTION $70/YEAR	PET INSURANCE $40/YEAR
EARTHQUAKE INSURANCE $150/YEAR	INSURE BASEBALL CARD COLLECTION $80/YEAR

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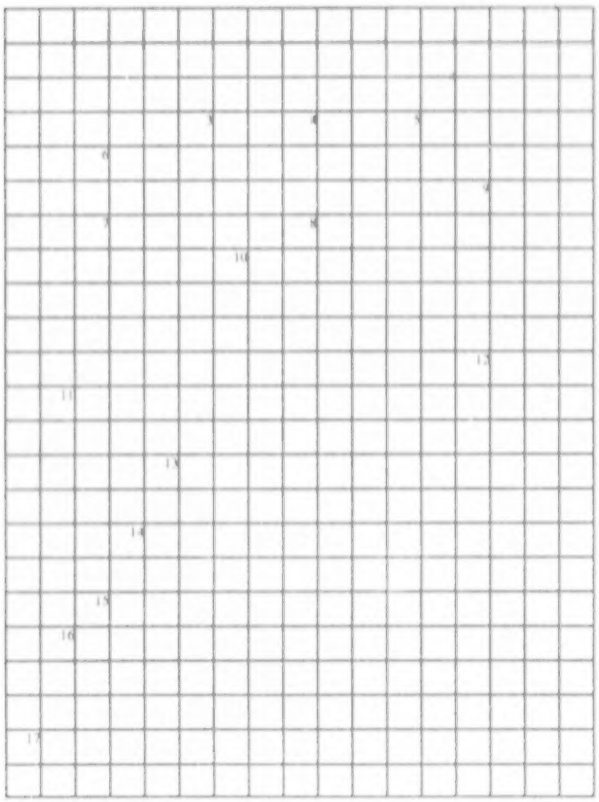
ACTIVITY 25
UNCOVERING COVERAGES



DOWN

1. Insurance salesperson
3. Protection against financial losses due to death
4. Protection against financial losses from lawsuits
5. Property insurance which protects against the loss of a dwelling and its contents
7. Property insurance that protects against the loss of contents in a rented dwelling
9. Chance of financial loss
10. Protection you receive from an insurance company that will pay you for financial loss due to unexpected events
12. Written insurance contract
13. Amount paid for insurance protection
15. Protection against expenses incurred due to illness, injury, or disability

ACROSS

2. Anything you own that has value
6. Statement requesting payment of a loss
8. Payment made by an insurance company
11. Protection against financial losses resulting from damage to or destruction of property or possessions
14. Person who receives a benefit payment
16. Clause in an insurance policy that states that a portion of a loss is to be paid by the insured
17. Protection against financial losses resulting from collision, theft, vandalism, fire, acts of nature, or injury with a vehicle

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ACTIVITY 25 (Answers)
UNCOVERING COVERAGES

ACROSS

2. Anything you own that has value
6. Statement requesting payment of a loss
7. Cost of insurance
8. Payment made by an insurance company
11. Protection against financial losses resulting from damage to or destruction of property or possessions
14. Person who receives an insurance payment
16. Clause in an insurance policy that states that a portion of a loss is to be paid by the insured
17. Protection against financial losses resulting from collision, theft, vandalism, fire, acts of nature, or injury

DOWN

1. Insurance salesperson
3. Protection against financial losses due to death
4. Protection against financial losses from lawsuits
5. Property insurance which protects against the loss of a dwelling and its contents
7. Property insurance that protects against the loss of contents in a rented dwelling
9. Chance of financial loss
10. Protection you receive from an insurance company that will pay you for financial loss due to unexpected events
12. Written insurance contract
13. Amount paid for insurance protection
15. Protection against the loss of income due to illness, injury, or disability

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ACTIVITY 26
THE BIG RISK

You have just graduated from high school or college, and you are single. You own a number of assets you are thinking of insuring, including an automobile, inherited jewelry, and a rare coin set you inherited from your grandfather, as well as the contents of your rented apartment. Through work you have a managed-care program for your health coverage that requires a copayment. Examine the cost and the risk of each of the things you would like to insure below, and circle them. Do not spend more than $2,600; you may spend less.

Renters Insurance (theft, fire, acts of nature, liability) Premium: $100/year Loss: $2,800 Risk: 1 in 12 Roll of dice: 9 Deductible: $250	**Jewelry Insurance** (family heirloom) Premium: $45/year Loss: $3,400 Risk: 1 in 12 Roll of Dice: 6 Deductible: None	**Automobile Insurance** (collision, theft, fire, vandalism, liability) Premium: $1,200/year Loss: $4,600 Risk: 8 in 12 Roll of Dice: 5 - 12 Deductible: $250
Health Insurance (doctor visits, prescriptions, surgery) Premium: $650/year Loss: $1,200 Risk: 10 in 12 Roll of dice: 2 - 12 Deductible: $10 co-payment (Assuming 2 visits per year)	**Life Insurance** (death) Premium: $300/year Loss: $100,000 Risk: Below 1 in 12 Roll of Dice: Must roll two 12s in a row Deductible: None	**Rare Coin Insurance** Premium: $170/year Loss: $1,000 Risk: 1 in 12 Roll of Dice: 4 Deductible: None
Disability Insurance (long term injury, illness) Premium: $600/year Loss: $14,400 Risk: 10 in 12 Roll of dice: 6 - 12 Deductible: None		

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ACTIVITY 26 (Continued)

Adding Up Insurance

Year	Annual Premiums of Insurance Coverages You Chose	Losses Due to Unexpected Events When Insured (Deductibles, Co-pays)	Losses Due to Unexpected Events When Uninsured	Total Dollar Costs
	"Example" $1,800 ($1,200 + $600 Automobile + Disability)	$250 (Automobile Deductible) $0 (Disability)	$1,200 (Health)	$3,250
1.				
2.				
3.				
4.				
5.				

Total _____

What were the consequences of the insurance choices you made?

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ACTIVITY 27
AUTOMOBILE INSURANCE: OUCH!

The average teen pays about $1,200 in automobile insurance, with premiums varying due to differences in the type of car that is insured, driving record, location of home, and how many miles are driven annually. Insurance company statistics indicate that teenage drivers have more accidents than any other age group.

Insurance companies, therefore, offer incentives to teen-aged drivers that can lower their automobile premiums. These include discounts for driver's education training, high grades, good driving records, and driving a car other than a sports car. Examine each of these incentives, indicate the cost and benefit of getting these discounts, and circle those you would select.

Incentive	Cost to You	Benefit to You
Driver's Education Training Premium Discounted		
3.0+ Grade Point Average Premium Discounted		
Non-sports Car Premium Discounted		

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CHANGES AND CHOICES

INTRODUCTION

Success in personal finance depends in part on people's understanding of how the American economy works and how conditions in the economy, such as inflation, recession, employment, interest rates, and taxes, affect their choices to spend and save. Knowing where the economy is today and where it is headed in the future helps people take actions to reduce the impact of events that are beyond their control. When young adults choose to learn the macroeconomic facts of life and are able to apply them to money management decisions, it may help them make decisions that lead to a higher standard of living, and a better lifestyle.

CONCEPTS

Fiscal Policy
Inflation
Interest Rates
Monetary Policy
Money Management
Recession
Saving
Spending
Standard of Living
Taxes
Unemployment

OBJECTIVES

◆ Analyze how macroeconomic changes in the economy influence household spending and saving decisions

◆ Use knowledge of macroeconomic conditions to predict the saving and spending choices of households

LESSON DESCRIPTION

Students are introduced to various macroeconomic conditions in the economy that can affect the spending and saving decisions of Americans. Next, they are divided into groups. Given a description of changes in the economy, groups decide whether spending and saving by the majority of the population will increase or decrease. In the assessment, students use knowledge of macroeconomic concepts to indicate how changes in the economy might affect most people's spending and saving decisions.

TIME REQUIRED

◆ One to two class periods

MATERIALS

20 pennies per student
One copy of Activity 28 per group
One copy of Activity 29 per student

PROCEDURE

1. Explain that standard of living is a measure of the material well-being of an individual or group.

2. Ask students how many of them are content with their current standard of living? How many of them would like to maintain or increase their standard of living?

3. Point out that the choices they make about spending, saving, and managing money will influence their future standard of living and lifestyle.

4. Explain that financial success depends in part on how well they manage those things that are under their control, such as education, spending, saving, and borrowing, but also on how well they are able to anticipate those things over which they have no control, such as changes in the economy.

5. Pass several bowls of pennies around the classroom, and ask students to take 20 pennies each.

6. Explain that the 20 pennies represent the average monthly income of American households.

7. Explain that students will divide the pennies into two piles. One pile will represent "income available for spending" and the other "saving."

8. Tell each student to decide how much income should be placed in each pile. (recommended saving is 5 - 10%)

9. Inform students that the purpose of this activity is to introduce them to changing conditions in the economy that affect households' decisions to spend and save.

10. Begin by defining a recession as a gradual slowdown of the economy for a sustained period of time during which production, employment, and income are declining.

11. Explain that when the economy slows, most people become wary of their job security and uncertain about spending. People without jobs usually find it difficult to find jobs or they take jobs that pay less than they otherwise would earn.

12. Ask the class how a recession might affect most employed people's decisions about spending (decrease) and saving (increase).

13. Instruct students to move one or more pennies from "spending" to "saving."

14. Ask students how many pennies they chose to move. Why?

15. Explain that if the economy is beginning to expand, the majority of employed people may feel more optimistic about their jobs.

16. Ask the class how an expansion might affect most employed people's decisions about spending (increase) and saving (decrease).

17. Define inflation as a sustained increase in the average price level of the entire economy, including prices of goods and services and interest rates for saving and borrowing.

18. Explain that when people anticipate an increase in the average price level, when they think they will receive higher average interest on savings, or when they expect they will be charged more to borrow money, they may change their spending and saving behavior.

19. Explain that if prices are expected to increase in the future, many consumers may choose to buy expensive items now, such as cars, furniture, or appliances at the lower current prices.

20. Explain that if interest rates remain fairly stable, while prices of products rise, there is little incentive to save because interest paid on saving will not keep up with the rising inflation rate. On the other hand, if interest paid on saving rises and inflation does not, there is a greater incentive for people to save.

21. Tell students to assume that the rate of inflation has remained at 3.5% for some time and most businesses and consumers expect it to remain at 3.5% during the next 6 months. Interest rates on saving, however, have increased 2% in the past year and are expected to increase another 2 - 4% in the next year. Discuss:

A. How will this change in the economy affect the spending (decrease) and saving (increase) decisions of most Americans?

22. Instruct students to demonstrate this change by moving one or more pennies from "income available for spending" to "saving."

23. Explain that fiscal policy involves the use of federal government spending and taxation programs to affect the level of economic activity in order to promote price stability, full employment, and economic growth. Tax changes directly affect most people's decisions to spend and save.

24. Tell students to assume that the government passes legislation that increases the tax on a gallon of gasoline. Ask them how this policy might affect most American's choices to spend or save.

25. Instruct students to demonstrate the change by moving a penny from either the "saving" or the "income available for spending" pile into a new pile, the "tax pile."

26. Ask students how this change in government policy will affect the majority of people's spending (decrease) and saving (decrease) choices. (There is less monthly income and, therefore, less income available to spend and save.)

27. Tell students to assume that a new political party is in power and a tax law passes that lowers the amount of Federal Income Tax Americans have to pay.

28. Ask how this new policy would affect most people's spending and saving choices. (Monthly income is increased; taxpayers have more income to spend and save.)

29. Have students move a penny from the tax pile to income available for spending or saving.

30. Explain that monetary policy is the responsibility of the Federal Reserve System. Through monetary policy, the Fed seeks to control the amount of money available in the economy.

31. Explain that the activities and policies of the Fed influence both the interest rates paid to savers and charged to borrowers. When interest rates are high for saving, people tend to save more and spend less; when interest rates for saving are low, people tend to spend more and save less.

32. Tell students that when interest rates increase or decrease and the prices of products in the economy remain stable (inflation), most people will change their spending and saving behavior.

33. Ask the class to assume that the rate of inflation is 3.5% and has remained at 3.5% for some time. However, the interest rate increases from 5% to 7%. What might be the effect of this change on spending (decrease) and saving (increase) decisions? The higher interest rate is an incentive to move income to saving.

34. Ask students to reflect this change in behavior by moving pennies from one pile to another (from "income available for spending" to "saving").

35. Ask students what change people might make if interest rates for saving decrease. (spending increases; saving decreases).

36. Define the number of unemployed as the number of people 16 years of age or older without jobs who are actively seeking work. Unemployment changes people's decisions about spending and saving.

37. Ask students what spending and saving changes people would make if they were laid off during a recessionary period. Instruct them to demonstrate this choice. (People would save as much of their last monthly income as possible, but once unemployment occurs, they would have to use savings for spending. (All pennies should be collected in the bowls, because all spending and saving has ceased.)

38. Discuss how people's choices to spend or save might differ during a time when they are unemployed, but the economy is expanding. (Employment should be easier to find; thus, spending should decrease, but perhaps not as much as above; there still will be no saving as there is no income.)

39. Point out that people who have knowledge of where the economy is today and where it is expected to head in the near future can take appropriate action, increasing their chances of financial success.

40. Review the macroeconomic concepts above. Then divide students into groups of two giving each pair a saving and a spending arrow (Activity 28).

41. Explain that you will read a scenario (Activity 28) which describes a change in an economic condition.

42. Ask the groups with the correct answers to discuss the reasons for their choices. Give each successful group a small reward (a penny or a colorful pencil) until all scenarios have been read. Groups will have 10 seconds to decide the effect of

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the change on most people's saving and spending. and when you say "now," they are to display the two arrows simultaneously. Ask the groups with the correct answers to discuss the reasons for their choices. Give each successful group a small reward (a penny or a colorful pencil) until all scenarios have been read.

43. Explain that the spending arrow should be in the "up" position if the group predicts that most Americans will increase spending, in the "down" position if it predicts that most people will decrease spending, and "sideways" if there is no change; likewise, the saving arrow should be in the "up" position if the group predicts that most Americans will increase saving, in the "down" position if it feels most people will decrease saving, and "sideways" if there is likely to be no change. The arrows will represent the behavior taken by the majority of savers or spenders in response to changes in the economy.

CLOSURE

Have each group develop a skit around the following: Two groups of individuals have the same income and the same amount of savings. One group keeps themselves informed about changes in economic conditions; the other does not make the effort. Through the skit, predict what choices each group might make and what might happen to each group as a result of changes in the economy.

ASSESSMENT

Distribute a copy of Activity 29 to students. Ask each student to create three new case studies that demonstrate his or her understanding of how economic conditions affect saving and spending decisions. Answers to the cases must be included. Have students exchange cases for practice.

EXTENSION ACTIVITIES

1. Learn more about the role of the Federal Reserve and monetary policy by showing the video "The Federal Reserve," which can be obtained from the Federal Reserve Bank of Kansas City at (816) 881-2402.

2. Have students collect information about current interest rates for saving and borrowing, and the current inflation rate and whether it is expected to rise or fall. Point out what happens to saving in an account earning 3% interest, with a 3.2% inflation rate and taxes of 30% on the interest earned. Have students review how changes in interest rates affect their spending and saving choices.

VOCABULARY

Fiscal Policy The use of federal government spending and taxation programs to affect the level of economic activity by promoting price stability, full employment, and economic growth

Inflation A sustained increase in the average price level of the entire economy

Interest Rate The percentages paid or charged for the use of money

Monetary Policy Policy made by the Federal Reserve System that seeks to affect the amount of money available in the economy. The activities and policies of the Federal Reserve influence the interest rates set by banks for loans to borrowers and for returns on savings.

Recession Negative growth of the economy for a period of six months or longer resulting in decreases in production, income, and employment

Standard of Living The level of material well-being of an individual or a group

Taxes Mandatory payments to governments

Unemployed Number of people 16 years or older without jobs who are actively seeking work

ACTIVITY 28
CHANGES AND CHOICES

Television news reports that the Federal Reserve is meeting tomorrow and business analysts anticipate that interest paid for saving as well as the interest charged for borrowing are expected to decrease from 7% to 5% as a result of its actions. If inflation remains at 3%, what immediate spending and saving decisions would most people make as a result? (save less, spend more)

A new tax requires workers earning over $20,000 a year to pay another 2% in taxes. How will this new tax change the spending and saving choices of most people who earn over $20,000? (spend less, save less)

Economists quoted in **The Wall Street Journal** predict that the current recession will continue for a longer period than originally thought. How will this information affect the spending and saving decisions of most households? (spend less, save more)

The inflation rate during the past year has been slowly increasing from 3% and is expected to reach 5%. Interest rates paid for saving as well as borrowing have remained the same. How would this knowledge assist most people in making spending and saving choices? (spend more, save less)

The state government has just lowered the state income tax, which means less tax will be taken out of taxpayer's paychecks. How will this legislation likely change most taxpayer's spending and saving choices? (spend more, save more)

A recession has caused high unemployment in the computer industry. While many jobs in computer maintenance have not yet been affected, many of these workers are worried. How will their decisions to spend and save change? (spend less, save more)

If the interest paid on saving and charged for borrowing is increasing and inflation is also increasing at the same rate, how would you change your decisions to spend and save? (There is no real incentive to change your behavior.)

ACTIVITY 28 (Continued)

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10.

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LESSON TEN

ACTIVITY 29
PUZZLING PREDICTIONS

Create three case studies that require an understanding of how conditions in the economy affect most people's choices to spend and save. Your case studies will be passed on to another student to analyze, so answers should be written on another sheet of paper. You will be assessed on your ability to write challenging case studies and provide correct information on the behavior of most spenders and savers.

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TEACHER RESOURCES

A Framework for Teaching Basic Economic Concepts with Scope and Sequence Guidelines, K - 12: New York: National Council on Economic Education, 1140 Avenue of the Americas, New York, NY 10036. (800) 338-1192. 1995.

This resource outlines the basic economic concepts and recommended sequence for economic education, K-12. Includes content statements, suggestions for assessing student learning, and instructional resources organized by grade level: K-1, 2-3, 4-5, 6-7, 8-10, and 11-12.

A Prime Reality: Credit Decisions & You. Durham: University of New Hampshire Consumer Studies Program & Cooperative Extension, Pettee Hall, 51 College Road, Durham, NH 03824. (603) 862-2137. 1994.

This is an interactive, non-competitive, decision-making game which teaches the wise use of credit. The game takes students through a series of decisions, such as purchase of a car and applying for a loan and focuses on decision-making and the trade-offs of credit use.

A Student's Guide to Banking and Personal Money Management. Augusta: Maine Bureau of Banking, 36 State House Station, Augusta, ME 04333. (207) 624-8570.

This is a 28-page student booklet.

ABC's of Figuring Interest. Chicago: Federal Reserve Bank of Chicago, P.O. Box 834, 230 LaSalle Street, Chicago, IL 60690. (312)322-5111.

This pamphlet (16 pages) explains different methods of calculating interest. Compares loans with a declining balance versus those which use the "Rule of 7/8ths."

All Credit Cards Are Not the Same. New York: American Express Company, Office of Public Responsibility, World Financial Center, New York, NY 10285-4725. (212)640-4443.1992.

This brochure includes a sliding calculator that shows the cost of credit when minimum payments are made for various periods of time at different interest rates. Covers factors to consider when shopping for credit.

Banister, R. et al. Consumer Approach to Investing, 1884 Edition. Ypsilanti: National Institute for Consumer Education, Eastern Michigan University, 207 Rackham Building, Ypsilanti, MI 48197. 1994.

This six unit curriculum is designed for teaching about basic financial planning, how financial markets work, investment choices, information, fraud, and ethics.

Bonner, P.A.,Consumer Education in the States: A Blueprint for Action. Ypsilanti: National Institute for Consumer Education, Eastern Michigan University, 207 Rackham Building, Ypsilanti, MI 48197. 1994.

This resource defines and presents the case for consumer education; suggests approaches for expanding consumer education in the schools.

TEACHER RESOURCES

Buy a Car on Your Terms. Madison: Credit Union National Association, Inc., P.O. Box 431, Madison, WI 53711. (800) 356-9655. 1990.

This 10 page brochure provides the basics of buying a car. It includes graphs showing the relationship between APR, length of loan, monthly payment, and finance charge. It also includes a graph of interest rate-rebate combination needed to match a price discount.

Capstone: The Nation's High School Economics Course. New York: National Council on Economic Education, 1140 Avenue of the Americas, New York, NY 10036. (800) 338-1192. 1989.

This is a curriculum with 58 lesson plans in a teacher resource manual and student activity book that teaches students how to use economic analysis to solve mysteries.

Car Ads: Low Interest Loans and Other Offers. Washington, D.C.: Federal Trade Commission, Bureau of Consumer Protection, Pennsylvania Avenue & 6th St. NW, Washington, D.C. 20580. ((202)326-2222. 1988.

This is a fact sheet with questions to ask an auto dealer offering low interest loans.

Car Financing Scams. Washington, D.C.: Federal Trade Commission, Bureau of Consumer Protection, Pennsylvania Avenue & 6th St. NW, Washington, D.C. 20580. ((202)326-2222. 1991.

A fact sheet with a warning about the "savings" of financing versus paying cash for a car.

Choice*Chance*Control. Indianapolis: Insurance Foundation, 3601 Vincennes Road, P.O. Box 68700, Indianapolis, IN 46268-0700

This resource includes a video, teachers guide, lesson plans, and student activity sheets that explain what insurance is and how it works.

Choices and Decisions: Taking Charge of your Life. St. Cloud: Visa Fulfillment, P.O. Box 100, St. Cloud, MN 56302 (800-235-3580. 1991.

This is a multi-media instructional package with twelve lessons containing paper-based activities, videodisc game, and five computer-based activities.

Credit Cards: An Owner's Manual. VISA U.S.A., Inc. (800) 847-2511. 1992.

This twenty-two page booklet uses CATHY™ cartoons to provide new cardholders with information about credit cards, including: how to get a card, benefits of credit, and how credit cards work. It discusses consumer rights, what to do if credit becomes a problem, and how to protect cards from theft and fraud. Single copy free.

Credit Ready?. Washington, D.C.: American Express Company, 1020 18th Street, NW, Suite 600, Washington, D.C. 20036, 1995.

This is a 27-minute video and five lessons that explain how students can make credit work for them. Free. Allow 4-6 weeks for delivery.

TEACHER RESOURCES

Don't Leave Home Without It. Tustin: CCCS of Orange County, 17782 E. 17th Street, Suite 105, Tustin, CA (714)544-8880. 1989.

This is an eleven-minute video with two segments that focus on teenagers who overextend credit cards. Points out signs of financial crisis, how to establish a good credit history, pitfalls of credit repair clinics, how to get out of debt with CCCS, and how to be debt free. $15.00.

Economics and the Stock Market Game™. New York: National Council on Economic Education, 1140 Avenue of the Americas, New York, NY 10036. (800) 338-1192. 1989.

This is a set of lesson plans to help students relate the study of economics to the securities industry and functions of the stock market.

Garman, E. Thomas and Raymond E. Forgue. Personal Finance, 4th Edition. Boston: Houghton Mifflin Company, Boston, MA, 1994.

Textbook

Garman, E. Thomas. Consumer Economic Issues in America, Second Edition. Houston: Dame Publications Inc., 7800 Bissonnet # 420, Houston, TX 77074. 1993.

Textbook

Get Money Wise. San Antonio: The USAA Foundation, D-3-E, USAA Building, 9800 Fredericksburg Road, San Antonio, TX 78206. (210) 498-0565.

This booklet provides basic information about banking, credit, and managing your income. Includes instructor's manual with activities, self-test, and game.

High School Financial Planning Program: Instructor's Manual and Student Workbook. Denver: National Endowment for Financial Education (Formerly College of Financial Planning), 4695 South Monaco Street, Denver, CO 80237-3403. (303) 220-1200. Student Workbook 1994.

This is a curriculum with six units that teach students how to manage their money. It includes lesson plans, transparencies, student activities, homework assignments, quizzes, games, and word search puzzles.

How Chuck Taylor Got What He Wanted. Baton Rouge: Consumer Credit Counseling Service, P.O. Box 66478, Baton Rouge, LA 70896. (504) 927-4274. Rev. 1995.

This is a supplementary textbook covering a wide range of financial education topics. Teacher's guide available.

How to Buy a Car With Credit. Logan: Utah Sate University, Department of Human Environments, Logan, UT 84322-2910. (801) 797-1594. 1994.

This is a twenty minute video that teaches Limited English Proficient (LEP) consumers the basic concepts of credit. Features Asian and Hispanic consumers. Includes a brochure and set of lesson plans.

TEACHER RESOURCES

How to Use Consumer Credit Wisely. St. Louis: International Credit Association, 234 N. Lindbergh Blvd., St. Louis, MO 63141 (314) 991-3030. 1991.

This is a curriculum designed to introduce the basics of credit: types, how to shop and apply for credit, what to do if a credit application is turned down, how to build a good credit history, and consumer credit rights.

Inside Credit: Three Stories. Washington, D.C.: AFSA Consumer Credit Counseling Education Foundation, 919 18th Street NW, 3rd Floor, Washington, D.C. 20006. (202) 296-5544.

This is a twenty-six minute video that describes three individual's experiences with credit: loan to buy a car; loan to renovate a house; dealing with credit card problems after losing a job. Explains how the credit process works.

Make the Right Choice. Los Angeles: CCCS of Los Angeles, Education Department, 1308 W. 8th Street, Los Angeles CA 90017. (213) 368-4509. 1993.

This is a seventeen minute video that shows three situations involving teens making financial choices: overspending with credit cards; problem of living beyond one's means; and repossession of a teen's car.

Master Your Future. St. Petersburg: Master Card International, P.O. Box 58142, St. Petersburg, FL 33715-9950. 800-624-9688. 1993.

This is a fifteen-minute video and teaching guide designed to teach about budgeting, checking, savings, credit, and credit history.

Money$mart™: Ten Challenging Cases Involving Money Management. Reading: Meridian Bankcorp, Inc. Community Relations Department, Reading, PA 19605 (610) 854-3127. 1993. (Developed in partnership with Pennsylvania Council on Economic Education, 417 Walnut Street, Harrisburg, PA 17101. (717)232-5581.)

This is an interdisciplinary, financial literacy curriculum which teaches young people financial decision making and money management skills through the use of multi-ethnic characters. Throughout the unit, students work in cooperative learning groups to solve money management cases, earning cash for good decisions, depositing their earnings, and writing checks to pay expenses. Concluding game and auction.

Multi-Lingual Credit Game. Oakland: Career Resources Development Center, 320 13th Street, Oakland, CA 94612. (510) 268-8886. 1994.

This is a board game to help Chinese, Vietnamese, Spanish, and English-speaking adults and teenagers have fun learning the concepts of credit. Incorporates basic financial management such as bill paying, purchasing goods and services, and identifying assets.

Smart Credit Quiz and The ATM Cash Card Quiz. New York: Maestro U.S.A., Master Card International, 888 Seventh Avenue, New York, NY 10106. (800) 999-5136. 1993.

These are brochures that use quiz questions with answers to highlight important information about credit and ATM cash credit cards.

TEACHER RESOURCES

Stock Market Game™. New York: Securities Industry Foundation for Economic Education, c/o Securities Association, 120 Broadway, 35th Floor, New York, NY 10271. (212) 608-1500.

This is a ten-week simulation of the real market, designed to get students involved in the world of finance, economics, and investing. Game is played by students, grades 4-12, and adults across the U.S. in fall and spring of each year.

Stock Market Game™ Guide. New York: Securities Industry Foundation for Economic Education, c/o Securities Association, 120 Broadway, 35th Floor, New York, NY 10271. (212) 608-1500. 1990.

This set of lesson plans teaches about the stock market. Emphasize, the direct connection between the stock market and economies.

Teenage Consumers: Teaching Your Children How To Save and Spend. New York: American Express Company, Office of Public Responsibility, 200 Vesey, New York, NY 10285-4850.

This pamphlet provides parents with the basic information teenagers need to know about spending and saving. American Express has a variety of free pamphlets on money management, spending, saving, and borrowing.

Teens and Credit. Los Angeles: CCCS of Los Angeles, Education Department, 1308 W. 8th Street, Los Angeles CA 90017. (213) 368-4509. 1994.

This is a thirty-minute video that uses a panel of experts to explore the problems that arise when teens are unprepared to use credit cards.

The Arithmetic of Interest Rates. New York: Federal Reserve Bank of New York, Public Information Department, 33 Liberty Street, New York, NY 10045 (212) 720-6134. 1984.

This booklet explains how to calculate interest rates and monthly payments on loans. Provides tables for determining loan finance charges and the future value of a dollar saved.

The Federal Reserve. Kansas: Federal Reserve Bank of Kansas City, Public Affairs Department, 925 Grand Blvd., Kansas City, MO 64198-0001. 1993.

These packets contains ten lesson plans and four videos that deal with various concepts related to money, banking, and the Federal Reserve.

Understanding Taxes Instructional Package. Washington, D.C.: Internal Revenue Service, Department of the Treasury, Washington, D.C. 20224. 1993.

This curriculum is designed to help students understand the American tax system. Includes teacher lesson plans, videos, computer disc, transparencies, and student worksheets. Information and computer disc updated annually.

Using Plastic: A Young Adult's Guide to Credit Cards. Washington, D.C.: Federal Trade Commission, Attn. Marcus Long, 6th and Pennsylvania Avenue NW, Washington, D.C. 29580. (202)326-2421. 1989.

Booklet (18 pp.) that includes choosing a credit card, establishing credit, how to use credit, credit reports, and related laws.

You're in Charge. Houston: Consumer Credit Counseling Service of the Gulf Coast Area, 4600 Gulf Coast Freeway, Suite 500, Houston, TX 77023-3551. (713)923-2227. 1992.

This is a three part video series and curriculum with teacher's guides. "Money: Save It, Use It or Lose It" explains how our needs and wants affect savings, credit, and debt; "Addicted to Credit" provides a decision-making model to assist in regaining control of credit; "Credit: Friend or Foe" discusses concerns about establishing credit and ideas for effective credit management.

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